Bank 中国光大银行
CHINA EVERBRIGHT BANK

Stock Code : 6818

2017 年度報告 ANNUAL REPORT

中國光大銀行股份有限公司
China Everbright Bank Company Limited

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

中国光大银行

Important Notice

The Board of Directors, Board of Supervisors and Directors, Supervisors and Senior Management Members of the Bank hereby warrant the authenticity, accuracy and completeness of the contents of this Report and that there are no false representations, misleading statements or material omissions, and jointly and severally assume full responsibility for the information in this Report.

The Twentieth Meeting of the Seventh Session of the Board of Directors of the Bank was convened in Beijing on 28 March 2018, at which the 2017 Annual Report of the Bank was considered and approved. 16 out of 16 Directors attended the meeting in person. Executive Director Zhang Jinliang, Non-Executive Director Zhang Shude and Non-Executive Director Li Huaqiang were authorized in writing by Chairman Li Xiaopeng, Vice Chairman Gao Yunlong, Non-Executive Director Cai Yunge respectively, who was unable to attend the meeting due to other official duties, to attend the meeting and exercise the voting right on his or her behalf. Independent Non-Executive Director Feng Lun attended the meeting by telephone. 6 Supervisors were present at the meeting as non-voting attendees.

The financial statements of the Bank for the year 2017 were prepared in accordance with the PRC Generally Accepted Accounting Principles ("PRC GAAP") and the International Financial Reporting Standards ("IFRS") and have been reviewed by Ernst & Young Hua Ming LLP and Ernst & Young in accordance with China Standards on Auditing and the International Standards on Auditing. Both auditors issued standard unqualified audit reports.

Mr. Li Xiaopeng, Chairman of the Board of Directors, Mr. Zhang Jinliang, President, and Mr. Xie Rong, Independent Non-Executive Director, hereby warrant the authenticity, accuracy and completeness of the financial report in this Report.

Unless otherwise stated, all monetary sums stated in this Report are expressed in Renminbi/RMB.

The Board of Directors of the Bank proposed to pay an ordinary share dividend of RMB1.81 (before tax) for every 10 shares for 2017. Please refer to "Significant Events" for details.

Forward-looking statements such as future plans of the Bank mentioned in this Report do not constitute actual commitments of the Bank to the investors. The investors and related parties should be fully aware of the risks, and should understand the difference between plans, predictions and commitments.

In this Report, "We/we", "our Company", "the Company", "the Bank", "Whole Bank" and "China Everbright Bank" all refer to China Everbright Bank Company Limited, and "the Group" refers to China Everbright Bank Company Limited and its subsidiaries.

The Board of Directors of
China Everbright Bank Company Limited
28 March 2018

Contents

Definition and Significant Risk Warning

I. Definitions

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

Ministry of Finance	:	Ministry of Finance of the People's Republic of China
Central Bank	:	The People's Bank of China
CBRC	:	China Banking Regulatory Commission
CSRC	:	China Securities Regulatory Commission
CIC	:	China Investment Corporation
CHI	:	Central Huijin Investment Ltd.
Everbright Group	:	China Everbright Group Limited
SSE	:	Shanghai Stock Exchange
HKEX	:	Hong Kong Exchanges and Clearing Limited

II. Significant Risk Warning

The Bank has disclosed herein the major risks involved in its operations and proposed risk management measures accordingly. Please refer to the "Discussion and Analysis of Operations" for details.

Company Profile

I. Basic Information

i. Name of the Bank

Registered Chinese Company Name: 中國光大銀行股份有限公司 (Abbreviation: 中國光大銀行 or 光大銀行)

Registered English Company Name: CHINA EVERBRIGHT BANK COMPANY LIMITED
(Abbreviation: CEB BANK)

ii. Relevant Persons

Legal Representative: Li Xiaopeng

Authorized representatives: Zhang Jinliang, Li Jiayan

Secretary to the Board of Directors and Company Secretary: Li Jiayan

Securities Affairs Representative: Li Jiayan

Assistant to Company Secretary: Lee Mei Yi

iii. Contacts

Contact Address: China Everbright Center, No. 25 Taipingqiao Avenue, Xicheng District, Beijing

Postal code: 100033

Tel.: 010-63636363

Facsimile: 010-63636713

Email: IR@cebbank.com

Investor hotline: 010-63636388

iv. Corporate Information

Registered and Office Address: China Everbright Center, No. 25 and No. 25 A Taipingqiao Avenue, Xicheng District, Beijing

United Social Credit Code: 91110000100011743X

Code of financial authority: B0007H111000001

v. Principal Place of Business in Hong Kong

CEB Hong Kong Branch: 30/F, Far East Finance Center, 16 Harcourt Road, Admiralty, Hong Kong

vi. Newspaper and Website Designated for Information Disclosure

Mainland China: China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily

Websites designated for publication of A share annual report:

SSE's website: www.sse.com.cn

Bank's website: www.cebbank.com

Websites designated for publication of H share annual report:

HKEX's website: www.hkex.com.hk

Bank's website: www.cebbank.com

Copies of annual report are available at: Office of the Board of Directors of the Bank, SSE

Company Profile

vii. Stock Exchange for Listing of Shares
A Shares: Shanghai Stock Exchange (SSE)
Abbreviated name of Ordinary Shares: Everbright Bank;
Code: 601818
Abbreviated name of Preference Shares: Everbright P1; Everbright P2;
Code: 360013, 360022 (SSE Comprehensive Business Platform)
Abbreviated name of Bond: Everbright Convertible Bonds;
Code: 113011
H shares: Hong Kong Exchanges and Clearing Limited (HKEX)
Abbreviated name: CEB Bank; Code: 6818

viii. Auditors during the Reporting Period
Domestic Auditor: Ernst & Young Hua Ming LLP
Office Address: 16/F, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Beijing
Certified Public Accountants for Signature: Gu Jun, Leung Shing Kit
Overseas Auditor: Ernst & Young
Office Address: 22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong
Certified Public Accountant for Signature: Kam Cheong Geoffrey

ix. Legal advisors to the Board of Directors during the Reporting Period
A Share Legal Advisor: Jun He Law Offices
H Share Legal Advisor: Herbert Smith Freehills

x. Share Depository
A Share Ordinary Shares, Preference Shares and Convertible Bond Depository: Shanghai Branch, China Securities Depository and Clearing Corporation Limited
Office Address: 36/F, China Insurance Building, No.166, Lujiazui East Road, Pudong New District, Shanghai
H Share Registrar: Computershare Hong Kong Investor Services Limited
Office Address: Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong

II. Introduction

China Everbright Bank (hereinafter referred to as "CEB" or "the Bank"), which was established in August 1992 and headquartered in Beijing, is a national joint-stock commercial bank approved by the State Council of China and the People's Bank of China (PBOC). The Bank was listed on the Shanghai Stock Exchange (SSE) in August 2010 (stock code 601818) and Hong Kong Exchanges and Clearing Limited (HKEX) in December 2013 (stock code 6818).

With continuous reform and innovation in optimizing its products design, channel development and service models, the Bank forged a strong competitive edge in its major product and business lines such as asset management, investment banking business, e-banking and credit card. Therefore, it has achieved a balanced growth of all business lines, with improved risk management and enhanced innovation capabilities.

As at the end of the reporting period, the Bank had established 1,196 branches and outlets nationwide, which managed to cover all provincial administrative regions and extended their business reach to 129 economic center cities across the country. Closely following up with the Belt and Road Initiative and expanding its international presence at a faster pace, the Bank put Hong Kong Branch, Seoul Branch, CEB International Investment Corporation Limited, CEB (Europe) S.A., and Luxembourg Branch into operation successively. Besides, Sydney Branch came under application and preparation. At the same time, its long-term sponsorship for "Water Cellar for Mothers", a public welfare program, demonstrated CEB's ever-growing commitment to its social responsibilities, which was well recognized by the Chinese society. The Bank was ranked No.49 in the "Top 1,000 World Banks" by The Banker, a U.K. magazine, in 2017.

Over the years, along with the evolution of Chinese economy and the growth of Chinese finance sector, the Bank managed to improve its brand image and market value continuously. While rendering its customers and the public with quality financial services, it also secured a good business performance and is now an influential listed bank with sound compliance.

Honors and Awards

Financial Money

Gold Asset Management Bank of the Year

EASTMONEY.COM

Most Innovative Bank for 2016
Best Wealth Management Bank for 2016

JCB Co., Ltd.

Award for Outstanding Contribution

IFENG.COM

Most Competitive Joint-stock Bank of the Year
Best Service Credit Card Center of the Year

Payment & Clearing Association of China, Online Payment Application Committee, and Mobile Payment Committee

Product Safety Award

CNFOL.COM

Best Wealth Management Bank

China UnionPay

Award for Innovative Cooperation in UnionPay Card Products in 2016

China Foreign Exchange Trade System

2016 Best Membership Award in Foreign Currency Lending of the Interbank Foreign Exchange Market
Award for Excellent Dealer and Interbank CD Issuer of the interbank Domestic Currency Market for 2016

All-China Women's Federation, China Women Development Foundation and China Children and Teenagers' Fund

2015-2016 China Women and Children's Charity Award

Interbrand, a global brand consultancy

Best China Brand for 2017

Securities Times

2017 Junding Award for Investment Banking in China
2017 Junding Award for Bond Underwriting in China

Financial Times, FINANCIALNEWS.COM.CN, China Financialyst, and Shanghai Financial News

Excellent Financial Brand Innovation Award of the Year

China Banking Association

Best Family Wealth Management Bank
Best Comprehensive Wealth Management Ability Award
Highest Yield Creator Award
Best Innovation Award
Best Transformation Award
Best Social Contribution Award
Best Compliance Award
Best Risk Control Award

Credit Reference Center, the People's Bank of China
Exemplary Organization in Individual Credit System Data Quality

Southern Weekly
Company with Exemplary Contribution to Targeted Poverty Alleviation in 2017

21st Century Business Herald
Best Bank Wealth Management Brand in 2017
Most Potential Private Bank in 2017

SINA.COM
Innovative Wealth Management Bank

The Asian Banker
Best Retail Banking Branch Innovation in China for 2017

New Finance World
2017 Best Case in Financial Innovation in China

21st Century Business Review
Best E-banking of 2017

China Financial Certification Authority (CFCA)
Best E-banking Award of 2017
Best Direct Banking Award of 2017

The Economic Observer
Excellent Innovative Bank of the Year
Excellent Cash Management Bank of the Year

HEXUN.COM
Trustworthy Bank Brand of the Year
Commercial Bank Innovative Product Award
Outstanding Financial Institution of the Year

Financial Times
Best Innovative Bank for Inclusive Finance of the Year
Best Small and Micro Finance Service Bank for the Year

Shanghai Securities News
Award for Excellence in Asset Management of the Year
Award for Excellence in Institution-exclusive Wealth Management Product of the Year

National Business Daily
Best Private Bank of the Year
Excellent Enterprise Annuity Management Bank of the Year

LI Xiaopeng
Chairman

Message from the Chairman

2017 was a year of great significance, marking China's entrance into the new era of socialism with Chinese characteristics. The national economy made stable progress while maintaining economic vitality and momentum, consistently creating new potential and achieving steady and healthy economic development. Macro controls took effect in remarkable ways, and monetary credit and private financing sustained reasonable growth. In response to national economic and financial policies, the financial industry "returned to basic business, improved its structure, strengthened regulations and was oriented by the market" and dedicated themselves to reform, innovation; financial institutions added to their strength; financial products became increasingly diversified; financial services became more universal; the trend of financial capital movement from the real economy to the virtual economy was preliminarily curbed.

In the past year, China Everbright Bank pursued progress while maintaining stability and keeping focus on its main business. It actively adjusted its business structure and achieved solid increases in assets and liabilities. It deepened modern corporate system reform, added CPC party-building to its Articles of Association, and combined CPC party leadership with improved corporate governance. It also made consistent upgrades to its comprehensive risk management system and employed intensified risk prevention and control in key areas to achieve steady improvements in asset quality. China Everbright Bank replenished capital through multiple channels, perfected its capital structure, further consolidated its developmental foundation and considerably improved its ability to mitigate risk. It enhanced its top-level design, set up a board-level Inclusive Finance Development and Consumer Rights and Interests Protection Committee and a head office-level Inclusive Finance Department, and increased its ability to serve the real economy. In close adherence to the Belt and Road Initiative, China Everbright Bank took more rapid steps in forming overseas organizations. Operations have already begun at CEB (Europe) S.A. and Luxembourg branches and an application for a Sydney branch has been submitted as the bank's overseas layout takes shape.

2018 is the first year of implementing the spirit of the 19th CPC National Congress, and a critical year for continuing the 13th Five-year Plan and securing a decisive victory in building a moderately prosperous society in all respects. The Chinese economy is shifting from high-speed to high-quality growth and stands at a pivotal juncture in changing its development model, perfecting its economic structure and shifting its primary growth drivers. In the meantime, the financial industry will continue to deleverage and adhere to strict regulation, at a time when the banking industry continues to face complicated and severe challenges. In the new year, we will uphold Xi Jinping Thought on Socialism with Chinese Characteristics for the New Era, carefully study and implement the spirit of the 19th CPC National Congress, and make strenuous efforts in the following respects, in accordance with requirements laid out at the central economic work meeting.

First, following our strategic goal of building a top-grade commercial bank in China, we will build well-regarded products and outlets and strive to achieve "outstanding products, targeted customer acquisition, detail-oriented services, and lean management." We will build China Everbright Bank into a bank defined by its reputation, aspirations, quality, innovation, vigor, unique characteristics, sense of responsibility, a dedication to the bottom line and aimed to continuously create value for its shareholders and the society.

Second, we will make it our mission to improve people's financial lives and serve the real economy, while assisting in supply-side structural reform. We will ensure our work dovetails with national strategies, carry out differentiated credit policies, support key strategies and areas, and earnestly develop inclusive finance as we seek to benefit the country through finance.

Third, based on our diversified financial holding group, we will effectively integrate internal resources, create new advantages in industry-finance integration, and provide customers with diverse and high-value-added financial services across the board.

Fourth, we will use financial technology innovation to speed our digital transformation, fully embrace the "Internet Plus" concept, reshape our financial service model, and promote in-depth innovation of products and services, with a view to developing through transformation and innovation.

Fifth, by deepening institutional and mechanism reforms and preventing and resolving risks, we will continue to improve our risk control system and internal control architecture, solve emerging problems by addressing both the symptoms and root cause and ensure that no systemic or regional financial risks emerge.

The winds are favorable and we are ready to set sail. We have entered a new age of passion and progress, and China Everbright Bank has embarked upon a hopeful new journey. I took over the helm of China Everbright Group at the end of last year. Filled with a sense of honor and responsibility, I am determined not to lose a minute in further developing our Bank. Standing at this wonderful and critical juncture, I will press ahead alongside all of our employees, always bearing in mind our mission as I seek to write a new chapter in Everbright's history. Even if every accomplishment might not be completed under my leadership, together we will deliver great performance for shareholders and society.

ZHANG Jinliang
President

Message from the President

In 2017, the Bank earnestly implemented the spirit of the 19th National Congress of the CPC, the Central Economic Work Conference and the National Financial Work Conference. By following the general principle of pursuing progress while maintaining stability, and by taking steps to stabilize growth, make structural adjustments, prevent risks and increase profits, we achieved steady and improved operations, maintained secure and orderly development, and registered a net profit attributable to shareholders of RMB31.545 billion.

In the past year, we seized market opportunities, issued tier-2 capital bonds and A-share convertible bonds, and completed the non-public issuance of H-shares. These steps effectively helped the bank replenish capital sources, enhance capital strength, perfect its capital structure, lower financing costs, and lay a solid foundation for our business development. By the end of the year, our capital adequacy ratio (CAR) was 13.49% and the core tier-1 CAR was 9.56%, significantly higher than those in the previous year.

In the past year, we improved comprehensive risk management, reinforced the “three defense lines,” worked diligently on full-process management of asset quality, stepped up the disposal of non-performing assets, and enhanced internal controls and compliance management. Thanks to these efforts, we kept overall risks under control and enjoyed a year without a major risk event. As of the end of the year, our NPL ratio was 1.59% and the provision coverage ratio was 158.18%.

In the past year we followed regulatory guidance, enthusiastically returned to basics and focused on our main businesses by intensifying structural adjustment, significantly cutting back on interbank and asset management businesses, and promoting the steady development of basic businesses such as deposit and loans. By the end of the year, we had total assets of RMB4.09 trillion, an increase of 1.70%. Our loan and deposit balances were RMB2.03 trillion and RMB2.27 trillion, increases of 13.19% and 7.16%, respectively.

In the past year, we comprehensively strengthened asset and liability management, tightened control of credit in ways both broad and narrow, expanded our net interest margin, and enhanced profits through improved management. We increased sources of income, actively fostered our credit card and agency businesses, and achieved a rapid increase in non-interest income. We reported fee-based and commission income of RMB30.774 billion, which constitutes a year-on-year increase of 9.47% and a 3.65 percentage point rise in its share of operating revenues.

In the past year, we accelerated the transformation of our corporate, retail, and financial market businesses. We worked hard to develop the bank into one characterized by comprehensive service, featured products, capital efficiency and intelligent technology, while enhancing our ability to serve the real economy. We stepped in an orderly fashion out of industries marked by excess capacity, limited credit to high-leverage enterprises, optimized the structure of existing assets, and assisted in supply-side structural reform. We actively developed inclusive finance and met regulatory requirements on loans for small and micro enterprises, as well as for agriculture, rural areas and farmers.

2018 is the first year of implementing the spirit of the 19th National Congress of the CPC and a critical year in scoring a decisive victory in building a moderately prosperous society in all respects. Guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the Bank will earnestly carry out the spirit of the 19th National Congress of the CPC and the deployments made at the Central Economic Work Conference and the National Financial Work Conference. By focusing on the three major tasks of “serving the real economy, preventing and controlling financial risks, and deepening financial reform,” we will pursue progress amid stability and attach equal importance to quality and profitability. In our new journey towards establishing a first-class joint-stock commercial bank in China, we will offer a strong start and excellent performance as our gift in the celebration of the 40th anniversary of China’s reform and opening up, and the 35th anniversary of Everbright Group.

Summary of Accounting Data and Financial Indicators

I. Key Financial Data and Indicators

	2017	2016	Change in 2017 over 2016 (%)	2015	2014	2013
Operating performance (RMB million)						
Net interest income	60,950	65,288	-6.64	66,459	58,259	50,862
Net fee and commission income	30,774	28,112	9.47	26,301	19,157	14,952
Operating income	92,018	94,365	-2.49	93,364	78,771	65,527
Operating expenses	(30,802)	(30,254)	1.81	(32,354)	(30,008)	(26,473)
Impairment losses on assets	(20,570)	(23,931)	-14.04	(21,652)	(10,209)	(4,633)
Profit before tax	40,646	40,180	1.16	39,358	38,554	34,421
Net profit	31,611	30,388	4.02	29,577	28,928	26,754
Net profit attributable to equity shareholders of the Bank	31,545	30,329	4.01	29,528	28,883	26,715
Scale indicators (RMB million)						
Total assets	4,088,243	4,020,042	1.70	3,167,710	2,737,010	2,415,086
Total loans and advances to customers	2,032,056	1,795,278	13.19	1,513,543	1,299,455	1,166,310
Provision for impairment of loans	51,238	43,634	17.43	38,119	28,025	24,172
Total liabilities	3,782,807	3,768,974	0.37	2,943,663	2,557,527	2,262,034
Balance of deposits from customers	2,272,665	2,120,887	7.16	1,993,843	1,785,337	1,605,278
Total equity attributable to equity shareholders of the Bank	304,760	250,455	21.68	223,493	178,975	152,839
Share capital	52,489	46,679	12.45	46,679	46,679	46,277
Per share (in RMB)						
Net assets per share attributable to ordinary shareholders of the Bank[1]	5.24	4.72	11.02	4.36	3.83	3.30
Basic earnings per share[2]	0.64	0.63	1.59	0.63	0.62	0.66
Diluted earnings per share[3]	0.59	0.63	-6.35	0.63	0.62	0.66
Profitability indicators (%)						
Return on average total assets	0.78	0.85	-0.07 percentage point	1.00	1.12	1.14
Return on weighted average net assets[4]	12.75	13.80	-1.05 percentage points	15.50	17.36	21.48
Net interest spread	1.32	1.59	-0.27 percentage point	2.01	2.06	1.96
Net interest margin	1.52	1.78	-0.26 percentage point	2.25	2.30	2.16
Proportion of fee and commission income in operating income	33.44	29.79	+3.65 percentage points	28.17	24.32	22.82
Cost-to-income ratio	32.36	29.00	+3.36 percentage points	27.05	30.02	31.84
Asset quality indicators (%)						
NPL ratio (%)	1.59	1.60	-0.01 percentage point	1.61	1.19	0.86

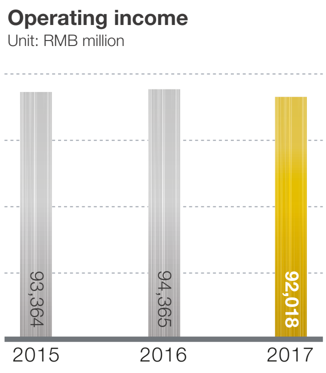
	2017	2016	Change in 2017 over 2016 (%)	2015	2014	2013
Provision coverage ratio	158.18	152.02	+6.16 percentage points	156.39	180.52	241.02
Provision-to-loan ratio	2.52	2.43	+0.09 percentage point	2.52	2.16	2.07

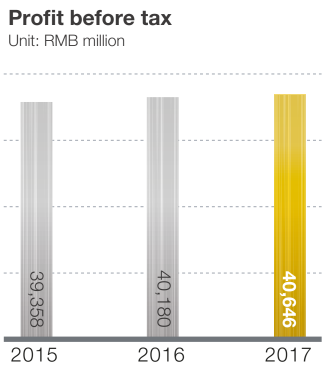
Notes:

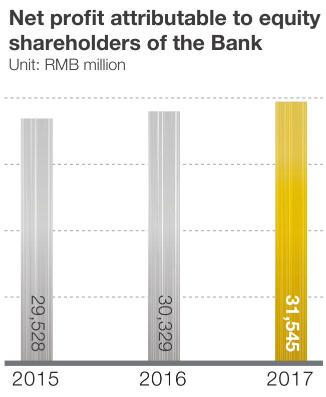
1. Net assets per share attributable to ordinary shareholders of the Bank = (net assets attributable to equity shareholders of the Bank – preference shares of other equity instruments)/total number of ordinary shares at the end of the period.
2. Basic earnings per ordinary share = net profit attributable to ordinary shareholders of the Bank/weighted average number of ordinary shares outstanding; net profit attributable to ordinary shareholders of the Bank=net profit attributable to equity shareholders of the Bank – dividends of the preference shares declared during the period.
3. Diluted earnings per share = (net profit attributable to ordinary shareholders of the Bank + effect of dilutive potential ordinary shares on net profit attributable to ordinary shareholders of the bank)/(weighted average number of ordinary shares outstanding + weighted average number of dilutive potential ordinary shares converted into ordinary shares).
4. Return on weighted average net assets = net profit attributable to ordinary shareholders of the Bank/weighted average net assets attributable to ordinary shareholders of the Bank.

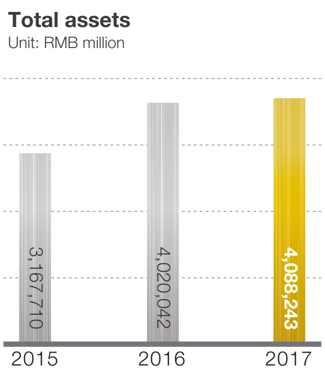
The above figures were calculated according to the *Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No.9): Calculation and Disclosure of Rate of Return on Equity and Earnings per Share (2010 Revision)* issued by the CSRC and the *Interpretation of Accounting Standards for Business Enterprises (No.7)* of the Ministry of Finance.

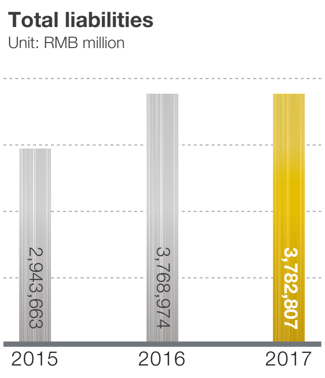
The Bank declared total dividends of the preference shares of RMB1.45 billion (before tax) are to be distributed for the year of 2017.

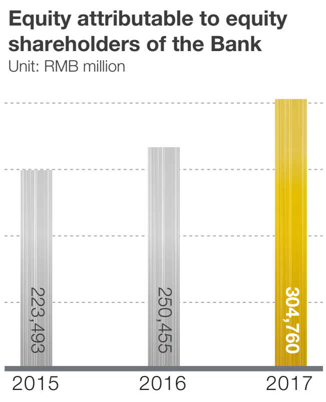












Summary of Accounting Data and Financial Indicators

II. Quarterly Operating Indicators of the Year

Unit: RMB million

Item	Q1	Q2	Q3	Q4
Operating income	23,692	22,693	22,488	23,145
Net profit attributable to equity shareholders of the Bank	8,579	8,360	8,494	6,112
Net cash flows from operating activities	(163,506)	(76,593)	35,826	61,552

III. Supplementary Financial Indicators

Unit: %

Item		Standard value	31 December 2017	31 December 2016	31 December 2015
Liquidity ratio	RMB	≥25	59.93	63.18	54.90
	Foreign currency	≥25	62.45	78.81	98.87
Loan exposure to largest single customer ratio		≤10	1.29	2.37	2.38
Loan exposure to top ten customers ratio		≤50	10.00	14.62	11.86

Note: The above indicators were calculated on non-consolidation basis.

IV. Capital Composition and Changes

The capital adequacy ratio (CAR) indicators were calculated in accordance with the *Capital Rules for Commercial Banks (Provisional)* (released by the CBRC on 7 June 2012) are as follows:

Unit: RMB million, %

Item	31 December 2017		31 December 2016		31 December 2015	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated	Consolidated	Non-consolidated
1. Net capital base	385,524	377,381	287,880	280,783	259,482	253,120
1.1 Common equity tier-1 capital	275,302	272,412	221,001	218,511	203,950	202,013
1.2 Common equity tier-1 capital deductions	(2,276)	(6,675)	(2,125)	(5,488)	(2,115)	(5,479)
1.3 Net common equity tier 1 capital	273,026	265,737	218,876	213,023	201,835	196,534
1.4 Additional tier-1 capital	30,012	29,947	29,997	29,947	19,992	19,965
1.5 Additional tier-1 capital deductions	–	–	–	–	–	–
1.6 Net tier-1 capital	303,038	295,684	248,873	242,970	221,827	216,499
1.7 Tier-2 capital	82,486	81,697	39,007	37,813	37,655	36,621
1.8 Tier-2 capital deductions	–	–	–	–	–	–
2. Credit risk-weighted assets	2,669,951	2,611,528	2,490,988	2,435,979	2,032,386	1,993,875
3. Market risk-weighted assets	12,210	13,074	7,757	7,079	4,970	4,970
4. Operational risk-weighted assets	174,639	172,143	166,292	164,066	148,160	146,445
5. Total risk-weighted assets	2,856,800	2,796,745	2,665,037	2,607,124	2,185,516	2,145,290
6. Common equity tier-1 CAR	9.56	9.50	8.21	8.17	9.24	9.16
7. Tier-1 CAR	10.61	10.57	9.34	9.31	10.15	10.09
8. CAR	13.49	13.49	10.80	10.77	11.87	11.80

Notes:

1. All domestic and overseas branches, as well as invested financial institutions within the scope of consolidated management in accordance with the *Capital Rules for Commercial Banks (Provisional)*, shall be included in the calculation of the consolidated CARs. Among these, the invested financial institutions within the scope of consolidated management include Everbright Financial Leasing Co., Ltd., Shaoshan Everbright Village Bank Co., Ltd., Jiangsu Huai'an Everbright Village Bank Co., Ltd., CEB International Investment Corporation Limited, and China Everbright Bank (Europe) S.A..

2. Net common equity tier-1 capital = common equity tier-1 capital – common equity tier-1 capital deductions; net tier-1 capital = net common equity tier-1 capital + additional tier-1 capital – additional tier-1 capital deductions; net capital base = net tier-1 capital + tier-2 capital – tier-2 capital deductions.

V. Leverage Ratio

The leverage ratio indicators were calculated in accordance with the *Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised)* (released by the CBRC on 30 January 2015) are as follows:

Unit: RMB million, %

Item	31 December 2017	30 September 2017	30 June 2017	31 March 2017
Leverage ratio	6.45	5.89	5.69	5.58
Net tier-1 capital	303,038	272,072	263,994	261,548
Adjusted balance of on- and off-balance sheet assets	4,698,240	4,621,816	4,643,364	4,688,433

Please refer to "Unaudited Supplementary Financial Information" for more details.

VI. Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) indicators were calculated in accordance with the *Measures for the Administration of Liquidity Risk of Commercial Banks (Provisional)* (released by the CBRC on 2 September 2015) are as follows:

Unit: RMB million, %

Item	31 December 2017	30 September 2017	30 June 2017	31 March 2017
Liquidity coverage ratio	101.96	99.27	94.59	91.60
Eligible high quality liquid assets	250,014	292,264	271,266	333,207
Net cash outflow in the next 30 days	245,201	294,415	286,778	363,757

Business Overview of the Bank

I. Economic, Financial and Regulatory Environments during the Reporting Period

In 2017, the global economy witnessed a generally synchronized recovery. The economy expanded continuously, whereas inflation remained subdued and the labor market was solid. Growth remained strong in the US, and the recovery picked up in the Euro area and Japan. The emerging market economies grew relatively rapidly, although some continued to face economic restructuring and transformation pressures.

The Chinese economy continued its steady growth, with stronger-than-expected performance, supported by greater economic dynamism, stronger growth momentum and higher potential as economic growth became more steady, balanced and sustainable, which translated into stable and sound economic development. As the economic structure continued to improve, new growth drivers gained a strong momentum, and the quality and cost-effectiveness of growth improved significantly. Throughout the year of 2017, the Chinese economy grew at a fairly fast rate and managed to stabilize the prices, both of which worked well together. In the year, China realized the year-on-year GDP growth rate of 6.9% and the year-on-year CPI growth rate of 1.6%, signaling that the country succeeded in lifting the quality and efficiency of its economic development.

In 2017, the People's Bank of China (PBOC) continued to implement a sound and neutral monetary policy. The regulatory framework underpinned by the monetary and macro-prudential policies produced preliminary results, which created neutral and appropriate monetary and financial environments for the supply-side structural reform and high-quality development. Changes in the liquidity situation and market expectations were closely monitored. A mix of instruments were flexibly employed to keep the liquidity in the banking system reasonable and stable. Besides, it also gave play to the leading role of the credit policy in supporting economic restructuring, transformation and upgrading. With the reform in interest rate liberalization going deeper, the market-based operation of Renminbi got regularized.

Following the working principle of "returning to the primary mission, optimizing structure, strengthening supervision and allowing market to play the guiding role", the regulators were engaged in making the banking sector more capable of serving the real economy, tackled the misconducts that disrupted the normal market order thoroughly, and carried out the crackdowns (against "Three Interest Arbitrages", "Three Breaches", "Four Improper Actions" and "10 Chaos"), so as to reset the asset management business back to its primary mission of acting on behalf of customers and the interbank business back to its chief function of adjusting liquidity. At the same time, they also worked hard to prevent and defuse the risks confronting the banking sector, and to further advance the reform in the banking sector.

II. Industry Landscape and Status of the Bank

In 2017, positive changes took place in the Chinese banking sector. The situation of money flow from real economy to virtual economy was brought under control preliminarily; the risk compliance awareness got rooted deeply, and the conducts in breach of laws and regulations or relating to regulatory arbitrage decreased substantially. As a result of these, the market players tended to act more rationally and normatively, and there basically emerged a situation featuring strong and stringent regulation.

Against such a backdrop, the Bank upheld the overall principle of "seeking progress in stability", consolidated the management foundation, gathered pace in operational transformation, served the real economy, and sharpened its competitive edges in market. While attaching sufficient importance to the quality and efficiency of development, the Bank acted on as required by the regulators, returned to its original aspirations, remained laser-focused on its principal business, and worked hard to propel structure adjustment and risk control. Thus, it managed to promote its various businesses towards steady and sound growth, secure an impressive business performance. The Bank upgraded its outlets for intelligent operation, shored up efforts to build the inclusive finance system, and establish the inclusive finance department. Besides, it worked harder to push forward reform and innovation, and strengthened the infrastructure and capacity building. With a variety of financing instruments, the Bank lifted its CAR to a higher level. On the list of "the Top 500 Global Banking Brands" lately released by the British magazine The Banker, the Bank moved up to the 44th place.

III. Review of Main Work of the Bank

i. Serving the Real Economy Vigorously

The Bank granted more loans, focused its efforts on supporting the implementation of major state strategies, and rolled out the "1,000 Enterprises in 1,000 Towns" program along with the National Development and Reform Commission, China Development Bank and others, taking an active part in the urbanization drive exemplified by construction of featured towns. In the meantime, it did its part in advancing the supply-side structural reform, stopped granting loans to poor-quality customers engaged in overcapacity industries in a prioritized and orderly way, limited the scale of loans extended to companies suffering from a high leverage ratio, and continued to optimize the structure of assets in inventory. Besides, it promoted the development of inclusive finance, with its loans for small and micro enterprises and relating to agriculture meeting the regulatory requirements for "three no-less indicators" and "one higher indicator".

ii. Never Overstepping the Bottom Line of Risk Management

The Bank worked harder to put the three lines of defense in place, improved the risk management mechanisms including internal control and evaluation system, investment decision-making system in major fields and post-investment management system, allowed the customers' credit risk warning system to play its due role, and consolidated the foundation of risk management. At the same time, it spared no effort to put asset quality under the full-flow control, engaged in loan recovery and disposal more proactively, and disposed the non-performing assets more efficiently. Besides, it also pushed forward purpose-specific crackdowns with concrete efforts, strengthened the internal control and compliance development, did a better job in remote monitoring and unannounced inspections, and guarded against financial activities in breach of laws and regulations. By strengthening risk management and control in the key fields, the Bank managed to put various risks under control overall.

iii. Advancing business Transformation Faster

Acting as required by the regulators, the Bank optimized the structure of inter bank business and asset management business, with a view to propelling such underlying business lines as loans towards steady development. In the meantime, it gathered pace in developing mobile banking, online banking and direct banking business lines, diverted more resources to promote "Cloud Fee Payment", "Cloud Payment" and other products, and continued to move towards comprehensive, feature, efficient and intelligent operations. In addition, the Bank also tightened the capital constraints, transformed the corporate banking, retail banking, and financial markets business lines, and helped the wealth management, credit card and other business lines build up their reputation in market.

iv. Solidifying the Operational and Management Foundation

The Bank intensified the asset and liability management in a well-rounded way, exercised more stringent process control over interest spread, and introduced sound capital management policies. It managed to issue the tier-2 capital bonds, A share convertible bonds, finished the additional stock issue of H shares, which boosted its fund and capital strength remarkably. In the meantime, the Bank upgraded its outlets for intelligent operation, with "enhancing service capacity at outlets and delivering better customer experience" as its objective. Besides, it advanced the human resources reform, intensified the evaluation management, optimized the hierarchical position system for employees, set up the career development passage for them, and shored up team building efforts, with a view to unleashing the operational vitality.

IV. Analysis on Core Competitiveness of the Bank

Everbright Group's full range of financial licenses: As a key state-owned enterprise under the management of the central government, China Everbright Group owns a full range of financial licenses and has set up a platform for the multi-business linkage cooperation of the Bank and other companies under the banner of the Group so as to provide customers with cross-market comprehensive financial solutions.

Unified Sunshine brand: Upholding the business philosophy of "Sharing Sunshine and Innovating Lifestyle" for many years, the Bank has stepped up its brand building efforts to create the "Sunshine" brand series. Thanks to the brand, it develops a favorable image in the market, gains fairly great reputation, and demonstrates considerable brand competitiveness.

Outstanding innovative DNA: The Bank was incorporated at the right time when a competitive financial market just emerged in China, and it grew stronger in the pursuit of exploration and innovation. Inspired by the intensive awareness of making innovation, it secured impressively innovative achievements. Thanks to its innovative efforts, it became the first bank that launched the RMB wealth management product, the first one to be licensed for running the national treasury business on an agency basis, and one of the first banks owning the dual qualifications for enterprise annuity custodian and account manager across the country. Besides, it also forged the largest open-ended payment platform named "Cloud Payment" nationwide.

Leading roles in some businesses sectors: The Bank has obtained comparative advantages in wealth management business. Its investment banking business segment as the first mover in the industry is able to provide corporate customers with comprehensive investment banking services. Its e-banking business has focused on building an open service system based on an open-ended platform, which thus has developed into an industry leading business model. Guided by the "customer-centric" tenant, its credit card business drives innovation with technology and forges unique brands with services. Growing fast, it has gained a superior position among its peers.

Prudent and efficient system for comprehensive risk management: Sticking to the principle of "full-round, whole-process, bank-wide operation", the Bank keeps improving risk management mechanism, proactively pushes forward the implementation of application of the new Basel capital accord, and has established a fairly perfect comprehensive risk management system which is adapted to the Bank's business scale and characteristics. The Bank is running a prudent and highly efficient risk management mechanism.

Advanced IT management and independent R&D capabilities: As the first Chinese commercial bank to realize "data centralization", the Bank has led the industry in terms of safe operation and maintenance as well as technological support capabilities. In recent years, it has also set up a platform to enhance its independent R&D capability.

V. Other Information on Business Review of the Bank

Certain information in relation to the Bank's business review, which includes a discussion of the principal risks and their management, an analysis of the Bank's performance using financial key performance indicators, particulars of important events affecting the Bank during the year, and an indication of likely future developments in the Bank's business, can be found in the "Discussion and Analysis of Operations" of this annual report. In addition, discussions on the Bank's environmental policies, the compliance with relevant laws and regulations which have a significant impact on the Bank, relationships with its key stakeholders and charity activities of the Bank are included in the "Significant Events" of this annual report.

Discussion and Analysis of Operations

I. Overall Operations of the Bank

During the reporting period, the Bank followed the overall principle of seeking progress without compromising stability, focused its efforts on carrying out three major tasks, that is, "serving the real economy, guarding against financial risk, and deepening financial reform", strengthened the requirements for high-quality development, worked hard to stabilize growth, adjust structure, prevent risk and increase profits, and advocated proactive management. As a result of these efforts, it sustained the stabilized, safe and orderly operations on the whole.

1. The assets and liabilities realized steady growth, and the structural adjustment was advancing steadily

As at the end of the reporting period, the total assets of the Group were RMB4,088,243 million, representing an increase of RMB68,201 million or 1.70% as compared with those at the end of the previous year. The total loans stood at RMB2,032,056 million, representing an increase of RMB236,778 million or 13.19% as compared with those at the end of the previous year. The total loans accounted for 49.70% of the total assets, representing an increase of 5.04 percentage points over the end of the previous year. The balance of deposits reached RMB2,272,665 million, representing an increase of RMB151,778 million or 7.16% over the end of the previous year. The total balance of deposits accounted for 60.08% of the total liabilities, up 3.81 percentage points as compared with the end of the previous year.

2. Profitability continued to grow and fee-based business yielded impressive income

During the reporting period, the net profit attributable to equity shareholders of the Group amounted to RMB31,545 million, representing an increase of RMB1,216 million or 4.01% over the previous year. The net fee and commission income of the Group was RMB30,774 million, representing a year-on-year increase of RMB2,662 million or 9.47%, and became the main driver of profit growth. The proportion of net fee and commission income in operating income reached 33.44%, representing a year-on-year increase of 3.65 percentage points, signaling a further improved income structure.

3. Asset quality remained relatively stable and overall risks were under control

As at the end of the reporting period, the Group's non-performing loans (NPLs) amounted to RMB32,392 million, representing an increase of RMB3,690 million over the end of the previous year. Non-performing loan (NPL) ratio reported 1.59%, down by 0.01 percentage point as compared with the end of the previous year. Credit provision coverage ratio reached 158.18%, up by 6.16 percentage points over the end of the previous year. The risk indicators showed an improvement while remaining a steady growth.

Discussion and Analysis of Operations

4. Capital replenishment went on smoothly and thus laid a solid foundation for further development

During the reporting period, the Group worked harder to adjust its asset and liability structure, thus making sure the risk assets grew at a fairly stable pace. At the same time, multiple financing instruments were employed to replenish capital vigorously, which drove up the capital adequacy ratio (CAR) remarkably. As at the end of the reporting period, the CAR was 13.49%, up 2.69 percentage points over the end of last year; the core tier-1 CAR was 9.56%, up 1.35 percentage points.

II. Income Statement Analysis

i. Changes in items of income statement

Unit: RMB million

Item	2017	2016	Change
Net interest income	60,950	65,288	(4,338)
Net fee and commission income	30,774	28,112	2,662
Net trading (losses)/gains	(2,751)	223	(2,974)
Dividend income	6	5	1
Net losses arising from investment securities	(193)	(261)	68
Net foreign exchange gains	2,464	338	2,126
Other net operating income	768	660	108
Operating expenses	30,802	30,254	548
Impairment losses on assets	20,570	23,931	(3,361)
Profit before tax	40,646	40,180	466
Income tax	9,035	9,792	(757)
Net profit	31,611	30,388	1,223
Net profit attributable to equity shareholders of the Bank	31,545	30,329	1,216

ii. Operating income

During the reporting period, the Group incurred an operating income of RMB92,018 million, a decrease of RMB2,347 million or 2.49% year on year. The drop was mainly attributed to the shrink of net interest income. The proportion of net fee and commission income in the total operating income was 33.44%, representing a year-on-year increase of 3.65 percentage points. The proportion of net interest income reported 66.24%, down by 2.95 percentage points year on year.

The following table sets out the composition of the Group's operating income and the proportions of each part.

Unit: %

Item	2017	2016
Net interest income	66.24	69.19
Net fee and commission income	33.44	29.79
Other income	0.32	1.02
Total operating income	100.00	100.00

iii. Net interest income

During the reporting period, the Group's net interest income stood at RMB60,950 million, a decrease of RMB4,338 million or 6.64% year on year.

The Group's net interest spread was 1.32%, representing a year-on-year decrease of 27 BPs. Its net interest margin was 1.52%, representing a year-on-year decrease of 26 BPs. Mainly due to the interest rate liberalization, the liability interest rate grew at a pace faster than the yields on interest-earning assets.

Unit: RMB million, %

Item	2017 Average balance	2017 Interest income/ expense	2017 Average yield/cost	2016 Average balance	2016 Interest income/ expense	2016 Average yield/cost
Interest-bearing assets						
Loans and advances	1,956,332	86,941	4.44	1,701,422	77,702	4.57
Finance lease receivables	58,191	2,729	4.69	50,421	2,012	3.99
Investment	1,315,771	54,391	4.13	1,155,338	46,560	4.03
Deposits with the central bank	355,074	5,263	1.48	356,866	5,306	1.49
Placements and deposits with banks and other financial institutions	326,598	11,019	3.37	394,855	11,870	3.01
Total interest-bearing assets	4,011,966	160,343	4.00	3,658,902	143,450	3.92
Interest income		160,343			143,450	
Interest-bearing liabilities						
Deposits from customers	2,185,250	42,218	1.93	2,091,143	41,451	1.98
Placements and deposits from banks and other financial institutions	1,012,350	36,593	3.61	915,773	25,412	2.77
Debt securities issued	512,675	20,582	4.01	345,449	11,299	3.27
Total interest-bearing liabilities	3,710,275	99,393	2.68	3,352,365	78,162	2.33
Interest expenses		99,393			78,162	
Net interest income		60,950			65,288	
Net interest spread[1]			1.32			1.59
Net interest margin[2]			1.52			1.78

Notes:

1. Net interest spread is the difference between the average yield of total interest-bearing assets and the average cost of total interest-bearing liabilities;

2. Net interest margin is the net interest income divided by the average balance of total interest-bearing assets.

Discussion and Analysis of Operations

The following table sets forth the changes in interest income and interest expense of the Group due to changes in business scale and interest rate.

Unit: RMB million

Item	Volume factor	Interest rate factor	Change in interest
Loans and advances	11,328	(2,089)	9,239
Finance lease receivables	364	353	717
Investment	6,632	1,199	7,831
Deposits with the central bank	(27)	(16)	(43)
Placements and deposits with banks and other financial institutions	(2,303)	1,452	(851)
Interest-bearing assets	14,111	2,782	16,893
Changes in interest income			16,893
Deposits from customers	1,818	(1,051)	767
Placements and deposits from banks and other financial institutions	3,491	7,690	11,181
Debt securities issued	6,714	2,569	9,283
Interest-bearing liabilities	9,588	11,643	21,231
Changes in interest expense			21,231
Net interest income			(4,338)

iv. Interest income

During the reporting period, the Group yielded an interest income of RMB160,343 million, representing a year-on-year increase of RMB16,893 million or 11.78%. Such increase was mainly attributed to the growing interest income from loans, advances and investments.

1. Interest income from loans and advances

During the reporting period, the Group's interest income from loans and advances amounted to RMB86,941 million, representing a year-on-year increase of RMB9,239 million or 11.89%. Such increase was mainly due to the expanding loan scale.

The following table sets forth the average balance, interest income, and average yield of major types of loans and advances at the Group:

Unit: RMB million, %

	2017			2016		
Item	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
Corporate loans	1,174,691	53,463	4.55	1,035,211	47,884	4.63
Personal loans	750,482	32,365	4.31	591,441	27,057	4.57
Discounted bills	31,159	1,113	3.57	74,770	2,761	3.69
Loans and advances	1,956,332	86,941	4.44	1,701,422	77,702	4.57

2. Interest income from investments

During the reporting period, the Group's interest income from investments amounted to RMB54,391 million, representing a year-on-year increase of RMB7,831 million or 16.82%. Such increase was mainly due to the expanding investment scale.

3. Interest income from placements and deposits with banks and other financial institutions, and financial assets held under resale agreements

During the reporting period, the Group's interest income from placements and deposits with banks and other financial institutions and financial assets held under resale agreements was RMB11,019 million, representing a year-on-year decrease of RMB851 million or 7.17%. The drop was mainly attributed to the shrinking scale of such assets.

v. Interest expense

During the reporting period, the Group's interest expense amounted to RMB99,393 million, representing a year-on-year increase of RMB21,231 million or 27.16%. Such increase was mainly due to the growing interest expense arising from the placements and deposits from banks and other financial institutions, financial assets sold under repurchase agreements as well as debt securities issued.

1. Interest expense on deposits from customers

During the reporting period, the Group's interest expense on deposits from customers amounted to RMB42,218 million, representing a year-on-year increase of RMB767 million or 1.85%. Such increase was mainly due to the expanding scale of deposits from customers.

The following table sets forth the average balance, interest expense and average cost of major types of deposits from customers at the Group:

Unit: RMB million, %

Item	2017			2016		
	Average balance	Interest expenses	Average cost	Average balance	Interest expenses	Average cost
Corporate deposits	1,741,071	33,706	1.94	1,625,568	32,035	1.97
Including: Corporate demand deposits	669,238	4,660	0.70	570,552	3,747	0.66
Corporate time deposits	1,071,833	29,046	2.71	1,055,016	28,288	2.68
Personal deposits	444,179	8,512	1.92	465,575	9,416	2.02
Including: Personal demand deposits	160,000	662	0.41	146,586	621	0.42
Personal time deposits	284,179	7,850	2.76	318,989	8,795	2.76
Total deposits from customers	2,185,250	42,218	1.93	2,091,143	41,451	1.98

2. Interest expense on placements and deposits from banks and other financial institutions, and financial assets sold under repurchase agreements

During the reporting period, the Group's interest expense on placements and deposits from banks and other financial institutions as well as financial assets sold under repurchase agreements registered RMB36,593 million, up by RMB11,181 million or 44.00% year on year. The increase was mainly attributed to the growth in the cost of placements and deposits from banks and other financial institutions as well as financial assets sold under repurchase agreements.

3. Interest expense on debt securities issued

During the reporting period, the Group's interest expense on debt securities issued totaled RMB20,582 million, representing a year-on-year increase of RMB9,283 million or 82.16%. Such increase was mainly due to the year-on-year growth of the average balance of debt securities issued.

vi. Net fee and commission income

During the reporting period, the Group generated RMB30,774 million in net fee and commission income, representing a year-on-year increase of RMB2,662 million or 9.47%. The increase of net fee and commission income was mainly due to the significant growth in bank card service fees and agency service fees. Of these, the income from bank card service fees went up by RMB6,160 million or 43.34% year on year; and the income from agency service fees increased by RMB811 million, up by 43.74% year on year.

The following table sets forth the major components of net fee and commission income of the Group:

Unit: RMB million

Item	2017	2016
Fee and commission income	33,025	29,932
Underwriting and advising fees	1,604	1,442
Bank card service fees	20,372	14,212
Settlement and clearing fees	1,066	934
Wealth management service fees	3,400	7,472
Acceptance and guarantee fees	861	828
Agency service fees	2,665	1,854
Commission on custody and fiduciary activities	1,683	1,614
Others	1,374	1,576
Fee and commission expense	(2,251)	(1,820)
Net fee and commission income	30,774	28,112

vii. Other income

During the reporting period, the Group's other income stood at RMB294 million, representing a year-on-year decrease of RMB671 million. The decrease was mainly due to net losses arising from transactions.

The following table sets forth the major components of other income:

Unit: RMB million

Item	2017	2016
Net trading (losses)/gains	(2,751)	223
Dividend income	6	5
Net losses arising from investment securities	(193)	(261)
Net foreign exchange gains	2,464	338
Other net operating income	768	660
Total other income	294	965

viii. Operating expense

During the reporting period, the Group incurred an operating expense of RMB30,802 million, an increase of RMB548 million or 1.81% year on year. The cost-to-income ratio stood at 32.36%, up by 3.36 percentage points year on year.

The following table sets forth the major components of operating expense:

Unit: RMB million

Item	2017	2016
Staff costs	15,679	15,171
Premises and equipment expenses	4,828	4,740
Tax and surcharges	1,025	2,885
Others	9,270	7,458
Total operating expense	30,802	30,254

ix. Impairment losses on assets

During the reporting period, the Group sustained the impairment losses on assets of RMB20,570 million, representing a year-on-year decrease of RMB3,361 million or 14.04%.

The following table sets forth the major components of impairment losses on assets:

Unit: RMB million

Item	2017	2016
Impairment losses on loans and advances to customers	19,700	22,111
Impairment losses on finance lease receivables	92	572
Impairment losses on held-to-maturity investments	(11)	102
Impairment losses on available-for-sale financial assets	207	574
Impairment losses on investment classified as receivables	391	330
Others	191	242
Total impairment losses on assets	20,570	23,931

x. Income tax

During the reporting period, the Group incurred an income tax of RMB9,035 million, a decrease of RMB757 million or 7.73% year on year.

III. Balance Sheet Analysis

i. Assets

As at the end of the reporting period, the Group's total assets reached RMB4,088,243 million, representing an increase of RMB68,201 million or 1.70% as compared with the end of the previous year, mainly due to the increase in loans, advances and other businesses.

The following table sets forth the composition of total assets of the Group:

Unit: RMB million, %

Item	31 December 2017 Balance	Percentage	31 December 2016 Balance	Percentage
Total loans and advances to customers	2,032,056		1,795,278	
Provision for impairment of loans	(51,238)		(43,634)	
Net loans and advances to customers	1,980,818	48.45	1,751,644	43.57
Finance lease receivables	56,364	1.38	55,560	1.38
Deposits with banks and other financial institutions	44,754	1.09	232,630	5.79
Cash and deposits with the central bank	353,703	8.65	381,620	9.49
Precious metals	40,352	0.99	22,720	0.57
Investment in securities and other financial assets	1,302,449	31.86	1,323,050	32.91
Placements with banks and other financial institutions, and financial assets held under resale agreements	240,257	5.88	193,305	4.81
Interests receivable	28,576	0.70	25,339	0.63
Fixed assets	14,929	0.37	14,228	0.35
Goodwill	1,281	0.03	1,281	0.03
Deferred income tax assets	7,596	0.19	5,622	0.14
Other assets	17,164	0.41	13,043	0.33
Total assets	4,088,243	100.00	4,020,042	100.00

1. Loans and advances

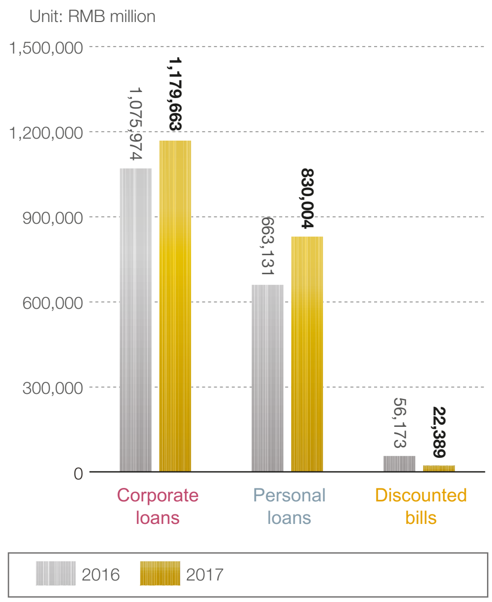
As at the end of the reporting period, the Group's total loans and advances were RMB2,032,056 million, an increase of RMB236,778 million or 13.19%, as compared with the end of the previous year. The proportion of net loans and advances in total assets was 48.45%, representing an increase of 4.88 percentage points as compared with the end of the previous year.

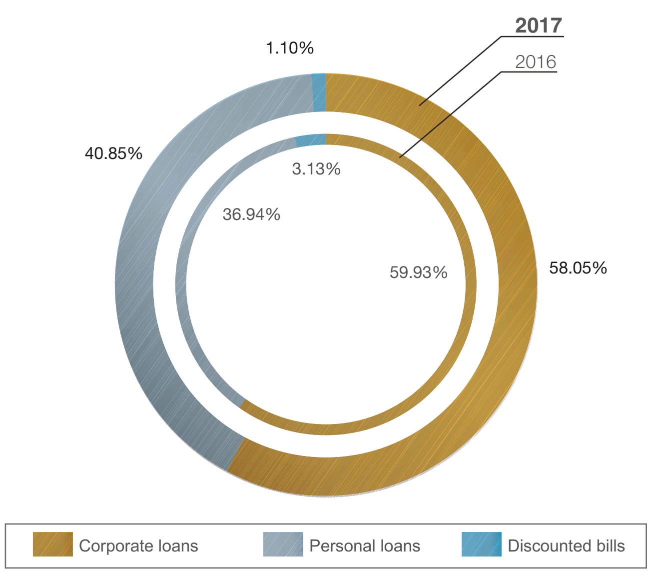
The following table sets forth the major components of the Group's loans and advances:

Unit: RMB million, %

Item	31 December 2017 Balance	31 December 2017 Percentage	31 December 2016 Balance	31 December 2016 Percentage
Corporate loans	1,179,663	58.05	1,075,974	59.93
Personal loans	830,004	40.85	663,131	36.94
Discounted bills	22,389	1.10	56,173	3.13
Gross loans and advances to customers	2,032,056	100.00	1,795,278	100.00

As of the end of the reporting period, the major components of the Group's loans and advances





2. Investment in securities and other financial assets

As at the end of the reporting period, the Group's investment in securities and other financial assets totaled RMB1,302,449 million, a decrease of RMB20,601 million as compared with the end of the previous year and representing a drop of 1.05 percentage points as compared with the end of the previous year. Investment in securities and other financial assets account for 31.86% of total assets.

The following table sets forth the major components of the Group's investment in securities and other financial assets:

Unit: RMB million, %

Item	31 December 2017 Balance	31 December 2017 Percentage	31 December 2016 Balance	31 December 2016 Percentage
Financial assets at fair value through profit or loss	24,196	1.86	7,791	0.59
Derivative financial assets	4,513	0.35	4,950	0.37
Available-for-sale financial assets	414,547	31.83	425,131	32.13
Held-to-maturity investments	344,617	26.46	257,500	19.46
Debt securities classified as receivables	514,576	39.50	627,678	47.45
Total investment in securities and other financial assets	1,302,449	100.00	1,323,050	100.00

3. Types and amounts of financial bonds held

As at the end of the reporting period, the financial bonds held by the Group amounted to RMB93,789 million, down by RMB20,138 million over the end of the previous year. Of these, the held-to-maturity investments occupied a proportion of 78.06% in the total.

The following table sets forth the types and amounts of financial bonds held by the Group:

Unit: RMB million, %

Item	31 December 2017 Balance	31 December 2017 Percentage	31 December 2016 Balance	31 December 2016 Percentage
Financial assets at fair value through profit or loss	911	0.97	1,861	1.63
Available-for-sale financial assets	19,663	20.97	54,146	47.53
Held-to-maturity investments	73,215	78.06	57,920	50.84
Total	93,789	100.00	113,927	100.00

4. Top 10 financial bonds held in scale

Unit: RMB million, %

Name of bonds	Nominal value	Annual interest rate	Maturity date	Provision for impairment losses
Bond 1	4,500	4.01	2037-01-09	–
Bond 2	4,430	3.83	2024-01-06	–
Bond 3	3,500	3.80	2036-01-25	–
Bond 4	2,790	3.43	2021-12-08	–
Bond 5	2,720	3.85	2024-01-09	–
Bond 6	2,500	4.20	2020-04-17	–
Bond 7	2,340	3.95	2031-02-26	–
Bond 8	2,000	4.20	2020-05-24	–
Bond 9	2,000	4.30	2020-09-05	–
Bond 10	1,500	4.20	2020-07-21	–
Bond 11	1,500	4.00	2020-03-09	–
Bond 12	1,500	4.29	2020-10-30	–

5. Goodwill

The cost of the Group's goodwill was RMB6,019 million. As at the end of the reporting period, the provision for impairment losses on goodwill stood at RMB4,738 million, and the carrying value of goodwill was RMB1,281 million, which was the same as that at the end of the previous year.

6. As at the end of the reporting period, there was no seizure, attachment, freezing or mortgage or pledge of the Bank's principal assets.

ii. Liabilities

As at the end of the reporting period, the Group's total liabilities reached RMB3,782,807 million, an increase of RMB13,833 million or 0.37% as compared with the end of the previous year. Such an increase was mainly due to the rise of deposits from customers, due to the central bank and debt securities issued.

Discussion and Analysis of Operations

The following table sets forth the composition of the Group's total liabilities:

Unit: RMB million, %

Item	31 December 2017 Balance	31 December 2017 Percentage	31 December 2016 Balance	31 December 2016 Percentage
Due to the central bank	232,500	6.15	187,000	4.96
Deposits from customers	2,272,665	60.08	2,120,887	56.27
Deposits from banks and non-bank financial institutions	577,447	15.27	830,354	22.03
Placements from banks and other financial institutions, and financial assets sold under repurchase agreements	152,379	4.03	136,696	3.63
Derivative financial liabilities	6,552	0.17	4,368	0.12
Accrued staff costs	8,412	0.22	7,776	0.21
Taxes payable	4,932	0.13	4,501	0.12
Interests payable	40,206	1.06	33,576	0.89
Debt securities issued	445,396	11.77	412,500	10.94
Other liabilities	42,318	1.12	31,316	0.83
Total liabilities	3,782,807	100.00	3,768,974	100.00

Note: Deposits from customers include structured deposits measured at fair value as specified, same hereinafter.

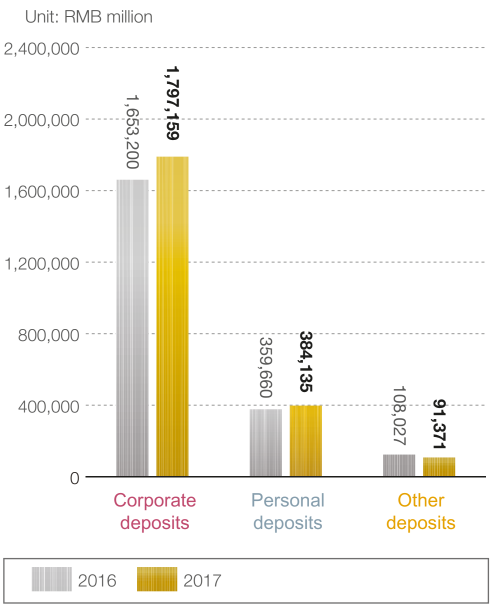
As at the end of the reporting period, the balance of the Group's deposits from customers reached RMB2,272,665 million, representing an increase of RMB151,778 million or 7.16%, as compared with the end of the previous year.

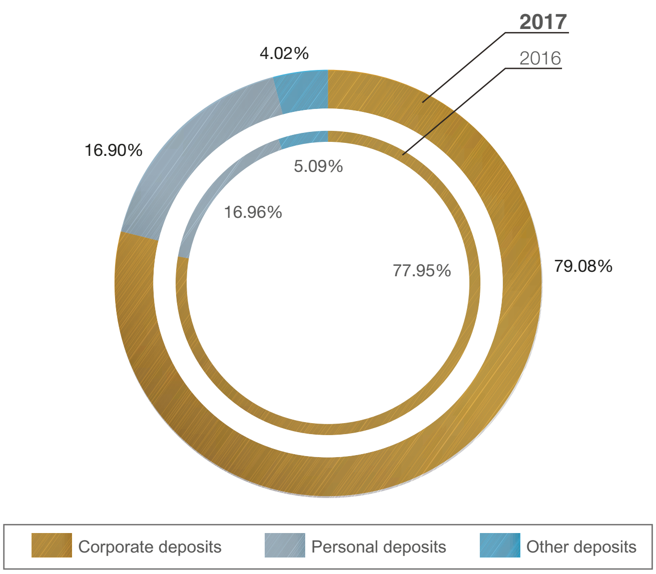
The following table sets forth the composition of the Group' deposits from customers:

Unit: RMB million, %

Item	31 December 2017 Balance	31 December 2017 Percentage	31 December 2016 Balance	31 December 2016 Percentage
Corporate deposits	1,797,159	79.08	1,653,200	77.95
Including: Corporate demand deposits	740,220	32.57	656,760	30.97
Corporate time deposits	1,056,939	46.51	996,440	46.98
Personal deposits	384,135	16.90	359,660	16.96
Including: Personal demand deposits	179,176	7.88	183,856	8.67
Personal time deposits	204,959	9.02	175,804	8.29
Other deposits	91,371	4.02	108,027	5.09
Total deposits from customers	2,272,665	100.00	2,120,887	100.00

As at end of the reporting period, the components of the Group's deposits





iii. Equity of shareholders

As at the end of the reporting period, the equity attributable to equity shareholders of the Bank totaled RMB304,760 million, representing an increase of RMB54,305 million as compared with the end of the previous year. It was mainly due to (i) the increase of equity by RMB31,545 million due to the realization of net profit attributable to shareholders of the Bank; (ii) the increase of equity by RMB25,978 million due to the completion of issuance of new H shares under specific mandate; (iii) the decrease of equity by RMB6,025 million due to the distribution of dividend.

The following table sets forth the composition of the equity attributable to equity shareholders of the Bank at the Group:

Unit: RMB million

Item	31 December 2017	31 December 2016
Share capital	52,489	46,679
Other equity instrument	35,108	29,947
Capital reserve	53,533	33,365
Other comprehensive income	(1,845)	509
Surplus reserve	21,054	17,951
General reserve	52,257	51,447
Retained earnings	92,164	70,557
Total equity attributable to equity shareholders of the Bank	304,760	250,455
Non-controlling interests	676	613
Total equity	305,436	251,068

iv. Off-balance sheet items

The Group's off-balance sheet items are mainly credit commitments, including loan and credit card commitments, bank's acceptance bills, letters of guarantee, letters of credit and guarantees. As at the end of the reporting period, the total amount of credit commitments was RMB800,612 million, representing an increase of RMB98,495 million as compared with that as at the end of the previous year.

The following table sets forth the composition of the Group's credit commitments:

Unit: RMB million

Item	31 December 2017	31 December 2016
Loan and credit card commitments	215,246	158,477
Bank's acceptance bills	403,717	401,420
Letters of guarantees	103,295	81,424
Letters of credit	78,169	60,611
Guarantees	185	185
Total	800,612	702,117

IV. Cash Flow Analysis

The Group's net cash outflows from operating activities amounted to RMB142,721 million. Of these, cash inflows generated from operating activities reported RMB86,378 million; cash outflows arising from changes in operating assets stood at RMB195,816 million; and cash flows arising from changes in operating liabilities totaled RMB33,283 million.

The Group's net cash inflows from investment activities amounted to RMB12,318 million, of which cash inflows generated from disposal and redemption of investments reported RMB766,967 million and cash outflows arising from payments on acquisition of investment amounted to RMB750,800 million.

Net cash inflows from financing activities were RMB39,284 million, of which cash inflows generated from capital contribution by shareholders registered RMB25,978 million.

V. Analysis of Loan Quality

i. Distribution of loans by industry

During the reporting period, by focusing on the target of economic restructuring, transformation and upgrading, the Bank proactively adjusted its credit portfolio by industry. As a result, the proportion of its loans to manufacturing, wholesale/retail trade and mining reduced while the loans to sectors concerning people's livelihood and public utility went up.

The following table sets forth the distribution of Group's loans by industry:

Unit: RMB million, %

Item	31 December 2017 Balance	31 December 2017 Percentage	31 December 2016 Balance	31 December 2016 Percentage
Manufacturing	241,125	20.44	235,514	21.89
Water, environment and public utility management	209,223	17.74	160,657	14.93
Real estate	142,010	12.04	126,717	11.78
Leasing and commercial services	126,451	10.72	95,554	8.88
Wholesale and retail trade	109,268	9.26	112,165	10.42
Transportation, storage and postal services	91,949	7.79	92,260	8.57
Construction	62,984	5.34	62,480	5.81
Finance services	49,780	4.22	51,275	4.77
Production and supply of power, gas and water	42,237	3.58	34,201	3.18
Mining	21,831	1.85	28,473	2.65
Others	82,805	7.02	76,678	7.12
Subtotal of corporate loans	1,179,663	100.00	1,075,974	100.00
Personal loans	830,004		663,131	
Discounted bills	22,389		56,173	
Gross loans and advances to customers	2,032,056		1,795,278	

Note: "Others" consist of agriculture, forestry, animal husbandry and fishery; accommodation and catering; public administration and social organizations; information transmission, computer services and software; health, social security and social welfare; resident services and other services; scientific research, technical services and geological prospecting; culture, sports and recreation; education; etc.

ii. Distribution of loans by region

The distribution of the Group's loans by region remained relatively stable, tending to a well-balanced structure.

The following table sets forth the distribution of Group's loans by region:

Unit: RMB million, %

Region	31 December 2017 Balance	31 December 2017 Percentage	31 December 2016 Balance	31 December 2016 Percentage
Yangtze River Delta	382,262	18.80	352,631	19.64
Pearl River Delta	235,902	11.61	213,533	11.89
Bohai Rim	322,013	15.84	298,715	16.64
Central	314,516	15.48	303,996	16.93
Western	301,306	14.83	260,592	14.52
Northeastern	113,724	5.60	109,300	6.09
Head Office	303,300	14.93	212,336	11.83
Overseas	59,033	2.91	44,175	2.46
Gross loans and advances to customers	2,032,056	100.00	1,795,278	100.00

iii. Types of loan collateral and their proportions

The Group's guaranteed loans, mortgage loans and pledged loans combined accounted for 70.87% of the total, and the remaining unsecured loans were mainly offered to customers with relatively high credit ratings.

The following table sets forth the types of loan collateral and their proportions at the Group:

Unit: RMB million, %

Item	31 December 2017 Balance	31 December 2017 Percentage	31 December 2016 Balance	31 December 2016 Percentage
Unsecured loans	591,866	29.13	491,329	27.37
Guaranteed loans	451,380	22.21	391,427	21.80
Mortgage loans	754,180	37.11	695,272	38.73
Pledged loans	234,630	11.55	217,250	12.10
Gross loans and advances to customers	2,032,056	100.00	1,795,278	100.00

iv. Top 10 loan customers

Unit: RMB million, %

Name	Industry	Balance of loans as of 31 December 2017	Proportion in total loans	Proportion to net capital
Borrower A	Manufacturing	4,955	0.25	1.29
Borrower B	Water, environment and public utility management	4,600	0.24	1.19
Borrower C	Transportation, storage and postal services	4,312	0.21	1.12
Borrower D	Real estate	3,907	0.19	1.01
Borrower E	Finance services	3,803	0.19	0.99
Borrower F	Water, environment and public utility management	3,750	0.18	0.97
Borrower G	Manufacturing	3,520	0.17	0.91
Borrower H	Finance services	3,350	0.16	0.87
Borrower I	Transportation, storage and postal services	3,246	0.16	0.84
Borrower J	Water, environment and public utility management	3,125	0.15	0.81
Total amount		38,568	1.90	10.00

Notes:

1. The proportion of the balance of loans to net capital is calculated according to the requirements of the CBRC.

2. There is no connected-party relationship between top ten borrowers and the Bank.

v. Five-category loan classification

Due to some internal and external factors such as macro economy slowdown and structural adjustment, the Group's NPLs increased moderately. As at the end of the reporting period, the balance of NPLs reported RMB32,392 million, representing an increase of RMB3,690 million as compared with that at the end of the previous year. The NPL ratio was 1.59%, down by 0.01 percentage point over the end of the previous year.

The following table sets forth the five-category loan classification of the Group:

Unit: RMB million, %

Item	31 December 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Normal	1,939,378	95.44	1,698,723	94.62
Special mention	60,286	2.97	67,853	3.78
Substandard	10,204	0.50	11,367	0.63
Doubtful	13,875	0.68	14,078	0.79
Loss	8,313	0.41	3,257	0.18
Gross loans and advances to customers	2,032,056	100.00	1,795,278	100.00
Performing loans	1,999,664	98.41	1,766,576	98.40
Non-performing loans	32,392	1.59	28,702	1.60

vi. Loan migration ratio

The following table sets forth the loan migration ratio of the Group:

Unit: %

Item	2017	2016	Change in 2017 over 2016	2015
Loan migration ratio of normal loans	1.68	3.31	-1.63 percentage points	4.27
Loan migration ratio of special mention loans	22.49	26.78	-4.29 percentage points	30.33
Loan migration ratio of substandard loans	57.69	62.17	-4.48 percentage points	86.57
Loan migration ratio of doubtful loans	36.18	25.66	+10.52 percentage points	24.98

vii. Restructured loans and overdue loans

1. Restructured loans of the Group

Unit: RMB million, %

	31 December 2017		31 December 2016	
Item	Balance	Proportion in total loans	Balance	Proportion in total loans
Restructured loans and advances	19,685	0.97	17,380	0.97
Of which: Restructured loans and advances to customers overdue more than 90 days	971	0.05	1,240	0.07

2. Please refer to "Notes to the Financial Statements" for details.

viii. NPLs by business type

The following table sets forth the distribution of the Group's NPLs by business type:

Unit: RMB million, %

	31 December 2017		31 December 2016	
Item	Balance	Percentage	Balance	Percentage
Corporate loans	22,785	70.34	21,412	74.60
Personal loans	9,607	29.66	7,290	25.40
Discounted bills	–	–	–	–
Total amount of NPLs	32,392	100.00	28,702	100.00

ix. Distribution of NPLs by region

During the reporting period, the Group's NPLs in Yangtze River Delta and Central regions decreased somewhat whereas those in Bohai Rim and Northeastern increased slightly.

The following table sets out the geographic distribution of the Group's NPLs:

Unit: RMB million, %

Region	31 December 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Yangtze River Delta	5,006	15.45	6,520	22.72
Pearl River Delta	5,160	15.94	4,663	16.25
Bohai Rim	5,281	16.30	3,666	12.77
Central	4,483	13.84	4,654	16.21
Western	4,727	14.59	4,599	16.02
Northeastern	2,827	8.73	1,259	4.39
Head Office	4,900	15.13	3,333	11.61
Overseas	8	0.02	8	0.03
Total amount of NPLs	32,392	100.00	28,702	100.00

x. Distribution of NPLs by industry

As at the end of the reporting period, the Group's NPLs were mainly concentrated in manufacturing and wholesale and retail trade sectors.

The following table sets out the industry distribution of the Group's NPLs:

Unit: RMB million, %

Item	31 December 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Manufacturing	11,111	34.30	10,310	35.91
Wholesale and retail trade	7,646	23.60	8,178	28.49
Mining	1,164	3.59	1,177	4.10
Construction	989	3.05	392	1.37
Real estate	275	0.85	220	0.77
Transportation, storage and postal services	269	0.83	220	0.77
Production and supply of power, gas and water	136	0.42	40	0.14
Leasing and commercial services	93	0.29	77	0.27
Public administration and social organization	10	0.03	10	0.03
Others	1,092	3.38	788	2.75
Subtotal of corporate loans	22,785	70.34	21,412	74.60
Personal loans	9,607	29.66	7,290	25.40
Discounted bills	–	–	–	–
Total amount of NPLs	32,392	100.00	28,702	100.00

Note: "Others" consist of agriculture, forestry, animal husbandry and fishery; accommodation and catering; financial services; education; information transmission, computer services and software; scientific research, technical services and geological prospecting; health, social security and social welfare, water, environment and public utility management etc.

xi. Distribution of NPLs by loan collateral types

As at the end of the reporting period, the Group saw the NPLs of its guaranteed loans decreased slightly.

The following table sets forth the Group's NPLs classified by loan collateral types:

Unit: RMB million, %

Item	31 December 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Unsecured loans	7,597	23.45	6,425	22.38
Guaranteed loans	11,280	34.83	11,546	40.23
Mortgage loans	11,218	34.63	9,402	32.76
Pledged loans	2,297	7.09	1,329	4.63
Total amount of NPLs	32,392	100.00	28,702	100.00

xii. Repossessed assets and provision for impairment

Unit: RMB million

Item	31 December 2017	31 December 2016
Repossessed assets	494	406
Of which: land, buildings and structures	494	406
Less: Provision for impairment	(18)	(17)
Net value of repossessed assets	476	389

xiii. Provision for loan impairment and write-off

The Group's provision for loan impairment includes provision for corporate loans, personal loans and discounted bills. The Group conducted impairment tests on the carrying value of credit assets on the balance sheet date, and the provision for impairment losses would be recognized through profit or loss for the current period if there was objective evidence indicating that the credit assets were impaired.

The following table sets out the changes in the provision for impairment losses of loans at the Group:

Unit: RMB million

Item	As of 31 December 2017	As of December 31 2016
Balance at the beginning of the year	43,634	38,119
Charge for the year	20,937	22,798
Release for the year	(1,237)	(687)
Recoveries for the period	884	747
Unwinding of discount	(1,015)	(876)
Write-offs during the period	(6,007)	(5,632)
Disposal in the period	(5,958)	(10,835)
Balance at end of the period	51,238	43,634

Note: Unwinding of discount refers to cumulative interest income of impaired loans due to the subsequent increase in present value over time.

xiv. Major measures for non-performing assets management and write-off policies of bad debts

The Bank further improved its asset quality management mechanism and strengthened the over-procedure monitoring process in respect to asset quality. As a result, the value of non-performing assets has been maximized by optimizing the disposal process of non-performing assets, introducing more disposal channels, making innovations in disposing method and enhancing disposal efficiency.

Pursuant to the requirements of the Ministry of Finance and regulatory authorities, the Bank timely released the Administrative Measures on Write-off of Bad Debts (Revision in 2017), and reviewed the non-performing assets categorized as loss, and updated the specific requirements for identification of bad debts. As per the principle of "confirming to identification conditions and providing effective evidence", it closely inspected and managed the written-off accounts. In accordance with the principle of "files kept after write-offs, and rights reserved to recover debts", the Bank shored up its efforts to recover written-off accounts.

During the reporting period, the Bank recovered non-performing loans in cash amounting to RMB9,860 million, wrote off bad debts of RMB6,007 million and completed the assignment of debts totaling RMB8,816 million.

VI. CAR Analysis

Please refer to "Key Accounting Data and Financial Indicators" for details.

VII. Segment Performance

The Group divided its business into different segments by geographical areas and by business lines for management purpose. Fund lending between different regional and business segments was conducted at an internal transfer price determined on the basis of market interest rate, and interest income and interest expense among segments were recognized.

The following table sets out the performance of the Group's regional and business segments.

i. Performance by regional segments

Unit: RMB million

	2017		2016	
Item	**Operating income**	**Profit before tax**	**Operating income**	**Profit before tax**
Yangtze River Delta	14,011	5,864	15,423	5,068
Pearl River Delta	8,811	2,113	9,563	1,655
Bohai Rim	13,093	2,041	13,599	5,435
Central	12,787	5,548	12,974	5,696
Western	8,659	2,548	8,865	2,631
Northeastern	3,752	(536)	4,509	1,558
Head Office	29,818	22,459	28,793	17,874
Overseas	1,087	609	639	263
Total	92,018	40,646	94,365	40,180

ii. Performance by business segments

Unit: RMB million

Item	2017 Operating income	2017 Profit before tax	2016 Operating income	2016 Profit before tax
Corporate banking business	42,593	15,599	42,388	11,037
Retail banking business	35,572	14,041	29,479	10,376
Financial market business	13,735	11,047	22,337	18,728
Other business	118	(41)	161	39
Total	92,018	40,646	94,365	40,180

Please refer to "Notes to Financial Statements" for details.

VIII. Others

i. Changes in major financial indicators and reasons for these changes

Unit: RMB million, %

Item	31 December 2017	31 December 2016	Increase/ (Decrease)	Major reasons for change
Deposits with banks and other financial institutions	44,754	232,630	-80.76	The scale of interbank assets shrank, and the deposits with depositary financial institutions decreased
Precious metals	40,352	22,720	77.61	The precious metals held scaled up
Financial assets designated at fair value through profit or loss	24,196	7,791	210.56	The bonds held for trading increased
Financial assets held under resale agreements	91,441	67,000	36.48	Financial assets held under resale agreements increased
Held-to-maturity investments	344,617	257,500	33.83	Held-to-maturity investments increased
Deferred income tax assets	7,596	5,622	35.11	Deferred income tax assets increased
Deposits from banks and other financial institutions	577,447	830,354	-30.46	Deposits of depository financial institutions scaled down
Derivative financial liabilities	6,552	4,368	50.00	The revalued loss of derivative products rose
Other liabilities	42,318	31,316	35.13	Funds pending clearance increased
Capital reserve	53,533	33,365	60.45	Issuance of new H shares under specific mandate completed
Other comprehensive income	(1,845)	509	N/A	The available-for-sale financial assets suffered valuation losses
Retained earnings	92,164	70,557	30.62	Retained earnings increased

Discussion and Analysis of Operations

Item	January-December 2017	January-December 2016	Increase/ (Decrease)	Major reasons for change
Net trading (losses)/ gains	(2,751)	223	N/A	The valuation of derivative financial instruments reported losses
Net foreign exchange gains	2,464	338	628.99	The net foreign exchange gains increased due to the changes of exchange rate
Total other comprehensive income	(2,354)	(3,420)	-31.17	The losses arising from valuation of available-for-sale financial assets dropped

ii. Overdue and outstanding debts

During the reporting period, the Bank did not incur any overdue or outstanding debts.

iii. Interests receivable and provision for bad debts

1. Change in on-balance sheet interests receivable

Unit: RMB million

Item	Balance at the beginning of the year	Increase during the year	Decrease during the year	Balance at end of the year
On-balance sheet interests receivable	25,376	113,099	109,847	28,628

2. Provision for bad debts of interests receivable

Unit: RMB million

Item	31 December 2017	31 December 2016	Increase
Balance of provision for bad debts of interests receivable	52	37	15

iv. Other receivables and provision for bad debts

1. Change in other receivables

Unit: RMB million

Item	31 December 2017	31 December 2016	Increase
Other receivables	8,693	6,719	1,974

2. Provision for bad debts of other receivables

Unit: RMB million

Item	31 December 2017	31 December 2016	Increase
Balance of provision for bad debts of other receivables	566	557	9

IX. Performance of Business Segments

i. Corporate banking

1. Corporate deposits and loans

The Bank continued to promote the growth of core deposits, vigorously attracted more deposits from non-credit customers, improved the deposit structure continuously, and lowered the liability cost; helped advance the supply-side structural reform, optimized the policies towards overcapacity industries, and actively supported the real economy and the major development strategies on the national level; and put in place a hierarchical marketing service system targeted at key customers, thus consolidating the base of corporate customers. As at the end of the reporting period, the balance of corporate deposits amounted to RMB1,800,948 million (including the corporate business related portion in other deposits), representing an increase of RMB142,102 million or 8.57%, as compared with that at the end of the previous year. Among the above, the core corporate deposits increased by 6.37%. The balance of the Bank's corporate loans amounted to RMB1,179,663 million, representing an increase of RMB103,689 million or 9.64%, as compared with that at the end of the previous year.

2. Small and micro enterprise (SME) finance and inclusive finance

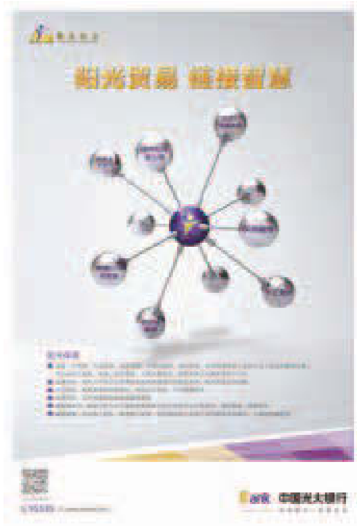
The Bank focused on extending loans to SMEs as a means to further improve the related systems and mechanisms of inclusive finance. While setting up the Inclusive Finance Department at the Head Office, it put the development of inclusive finance under uniform planning and management, stepped up efforts to introduce more marketing channels with an aim to develop the sci-tech finance and green finance vigorously. Additionally, it studied how to encourage SMEs to raise funds online, and kept delivering better financing experiences to customers. As a result of these efforts, the SME business grew steadily at the Bank. Calculated by the criteria for classifying small and medium-sized enterprises jointly issued by the Ministry of Industry and Information Technology and three other ministries in 2011 as well as regulatory requirements of CBRC, the balance of the Bank's SME loans amounted to RMB400,278 million as at the end of the reporting period, representing an increase of RMB59,308 million or 17.39% as compared with that as at the end of the previous year, growing faster than the average loan growth rate of the whole Bank. The number of SME clients reported 261,100, representing an increase of 11,200 over the same period of the previous year.

3. Investment banking

The Bank innovated in the investment banking systems and mechanisms. It merged the original two departments (DCM & Investment Banking Department and Strategic Corporate Department) into the Strategic Corporate Customer and Investment Banking Department. In the meantime, great efforts were made to provide customers with debt financing, M&A financing, asset securitization and other investment banking services. During the reporting period, the Bank issued bonds totaling RMB212.4 billion, with its bond scale and market share both on the rise. At the same time, the Bank actively developed its M&A financing services, wrapping up its first management buyout deal and FTZ-themed overseas syndicated loan deal. Besides, it also spared no efforts to conduct its asset securitization business, and managed to issue its collaterized loan obligation named "Everbright P1" and "Everbright P2", which was at the forefront of the market in terms of single issuance scale.

4. Trade finance

In the trade finance segment, the Bank realized a rapid growth in its fee-based business by means of consolidating customer base, optimizing resource allocation and capitalizing on capital efficiency. With more efforts put in product innovation, the Bank propelled the development of online supply chain business and the construction of cross-border e-commerce payment system. By taking advantage of FTZ-related favorable policies, the Bank set up the management framework, channels and product system and managed to boost rapid growth of assets, liabilities and customer base overall. The Bank exerted efforts in business with its overseas institutions and FTZ business which acted as an extended financial service platform and helped to facilitate the development of its international settlement and cross-border financing business. As at the end of the reporting period, the overall balance of the on-balance-sheet and off-balance-sheet trade finance increased by 26.59% as compared with that at the end of the previous year.



ii. Retail banking

1. Personal deposits

The Bank vigorously expanded the scale of personal deposits and continued to optimize the deposit structure. Focusing on the sources and flows of customer funds, the Bank expanded and strengthened the scenario application of its retail banking projects in payment, tourism, healthcare, pension, etc., and continuously promoted its businesses in shanty town transformation, payroll service, third-party fund custody, “going abroad” finance and personal transaction fund custody. By strengthening the collaboration between the corporate banking and the retail banking business lines, the integration of different retail banking resources, and the utilization of various business channels, the Bank upgraded its retail banking products and services, and improved the clients’ comprehensive contribution. As at the end of the reporting period, the balance of personal deposits (including the retail business related deposits in other deposits) of the Bank amounted to RMB471,717 million, representing an increase of RMB9,676 million or 2.09% over that at the end of the previous year.

2. Personal loans

The Bank strictly implemented the state regulation and control policies on the real estate market, and supported the residents’ rational demand for housing loans. The Bank focused on inclusive finance and explored for a risk-shared credit business mode for small and micro enterprises (SMEs) in a bid to proactively furnish the entrepreneurs of self-employed businesses and SMEs with convenient and efficient financing services. Through financial technologies, the Bank integrated its financing products into online consumption channels and created more intelligent, scenario-based financing experience. The capability of customer acquisition through various channels was improved, as it tapped deep into customer sources and actively broadened the channels. As at the end of the reporting period, the balance of personal loans (excluding credit card loans) amounted to RMB529,388 million, an increase of RMB78,583 million or 17.43% as compared with that as at the end of the previous year. The volume of personal loans granted by the Bank in 2017 was RMB200,382 million. The number of personal loan clients totaled 3,751,700, representing an increase of 1,007,300 from that at the end of the previous year.

3. Private banking

By regarding the mid-to-high end clients as its strategic target, the Bank accelerated the transformation of wealth management business and enhanced the development of private banking business. Through internal collaboration and external cooperation, the Bank engaged in providing customized products and services covering diversified demands to the clients, and engaged in establishing a professional, comprehensive and integrated financial service platform. Through big data analysis, the Bank launched precision marketing campaigns, standardized marketing process, and built professional portfolio service system. To provide differentiated services according to the clients' requirements and improve their experience, the Bank put great emphasis on training professional investment advisory service teams. As at the end of the reporting period, the Bank had 30,490 private banking customers, representing an increase of 2,277 customers or 8.07% as compared with that at the end of the previous year. The total assets under management of the private banking business amounted to RMB285,310 million, representing an increase of RMB27,345 million or 10.60% as compared with that at the end of the previous year.

4. Bank card business

(1) Debit card business

In accordance with the regulators' requirements for classified management of personal bank accounts, the Bank exercised better functional control over debit cards, and developed debit cards in categories I, II and III in a classified manner. At the same time, it strengthened risk management in bank card operation, and upgraded the financial IC cards as a means to protect the legitimate rights and interest of cardholders. Besides, the Bank also developed the citizen card innovatively, which integrated the functions of debit cards to the scenario of buses, subways, etc. with a view to promoting people's livelihood. Additionally, it also rolled out the CYL volunteer card to show its support for the public welfare cause, and realize the function of issuing customers with new cards in the same card number, so as to deliver better service experience to customers. As at the end of the reporting period, the accumulated number of debit cards issued by the Bank reached 60.66 million, including 2.20 million new cards issued in the year.

(2) Credit card business

Seeking for cross-industry and scenario-based operation, the credit card business segment of the Bank launched a host of co-brand credit cards including B.DUCK Card, Dragon Pass Card and iQIYI Card targeting at many well-divided customers segments including young people, business travelers and entertainment. Starting with protection of intellectual property rights and refined management, it worked hard to enhance operational and management standards, obtained more than 100 state intellectual property rights, and won the highest award of the Six Sigma Projects Competition. At the same time, the Bank leveraged on such technologies as big data and machine learning to optimize many functions like review and approval, monitoring, early warning and collection, in a bid to improve the comprehensive risk management system. As at the end of the reporting period, 9,304,600 new credit cards were issued by the Bank, with the total number of credit cards issued reaching 45,263,300. The transactions volume during the reporting period was RMB1,674,234 million, up by 31.07% over last year. The overdraft balance at the end of the year (excluding the payment adjustment to transitional account) amounted to RMB302,946 million, up by 41.42% over the same period of the last year. The overdue rate for bills past due over 180 days stood at 1.09%. The Bank generated an operating income of RMB28 billion, up by 35.66% year on year.

5. E-banking

The Bank implemented the strategy of "seeking for open finance, intelligent services and mobile-first operation" and promoted e-banking business healthily and rapidly with the concept of focusing on customers. At the same time, it firmly drove internet finance grow larger and stronger, and continued to focus efforts on forging six financial products, namely "Sunshine Direct Bank", "Cloud Fee Payment", "Cloud Payment", "E-Commerce", "E-Wealth Management" and "E-Financing". As at the end of the reporting period, the Bank had 35.3512 million mobile banking customers, up by 8.4377 million over the previous year; it had 402.9 thousand corporate online banking customers, up by 44.7 thousand over the previous year; and it had 8.4879 million direct banking customers, up by 3.8147 million over the previous year. There were more than 2,000 payment business on "Cloud Fee Payment" platform, with the total number of transactions reaching 539 million. Relying on the "E-Commerce" serial platforms, the Bank opened up green channels for more than 40 state-level poverty-stricken counties in 11 provinces (autonomous regions) to sell their specialty goods.

iii. Financial markets and interbank business

1. Financial markets business

The Bank pursued the benefit-oriented approach, further strengthened its capacities in treasury management and actively issued interbank CDs, with a view to utilizing funds more efficiently. At the same time, it steadily expanded the gold leasing business line, and enhanced the income from the fee-based fiduciary transactions. It also optimized the bond portfolios by primarily investing in the government bonds and the secure, high-grade debenture bonds, so as to put credit risk under efficient control and produce considerable yields. As at the end of 2017, the balance of bonds in proprietary account amounted to RMB471,890 million, accounting for 11.54% of the Bank's total assets, 64.70% of which were government bonds and local government bonds. The Bank accumulatively scored RMB17.36 trillion in RMB China Bonds settlement, which was at the forefront of the Chinese commercial banks.

2. Interbank business

As required by the regulators, the Bank took the initiative to scale down the interbank assets, put interbank business under franchised management, and guaranteed operational compliance. At the same time, it strengthened the management of interbank asset and liability portfolios, reasonably decided the term structure of assets and liabilities, and met the needs of the bank-wide liquidity management. Besides, the Bank actively adjusted the interbank investment structure, optimized the allocation of business resources, and better served the real economy. Business cooperation with other banks and non-banking financial institutions were improved with the intensified customer relationship management and consolidated interbank customer base. As at the end of the reporting period, the balance of the interbank deposits amounted to RMB577,447 million and the balance of interbank assets reached RMB799,587 million.

3. Asset management

The Bank actively adjusted the strategy of fund source and stuck to taking the retail wealth management business as its core, while optimizing the fund structure. At the same time, it strengthened liquidity management, continued to improve the risk control and post-investment management mechanism, with all risk quota indicators performing well. Thanks to its system development efforts, the Bank ran its fund management business steadily. The CEB Asset Management System was granted with the Technology Development Award by the People's Bank of China. As at the end of the reporting period, the balance of wealth management products amounted to RMB1.11 trillion. The issuance of wealth management products for the whole year amounted to RMB4.85 trillion, up by RMB0.9 trillion or 22.78% from that as at the end of the previous year. All products under "Sunshine Wealth Management" brand were honored upon maturity, and the risk status of the outstanding products remained normal.

4. Asset custodian services

Thanks to the efforts made to expand the market share in the custodian business and intensified marketing efforts, the Bank came out the top of the Chinese joint-stock commercial banks in terms of wealth management assets under custody. In the meantime, it worked hard to make business innovations, vigorously developed the asset management-related administrative business, optimized the new-generation asset custodian system, and put in place the sound custodian product and business system. Besides, the Bank enhanced the service capacity, stepped up team building efforts, broke down business flows, and ensured the efficient and secure operations of the custodian business. As at the end of the reporting period, the volume of asset custodian business reached RMB5,207,675 million, and the income after tax from such business amounted to RMB1,567 million, both of which set a record high.

X. Business Innovation

While focusing on product and service innovations, the Bank made a host of innovation achievements in such fields as corporate banking, retail banking and internet finance. The product relating aircraft leasing asset securitization was innovated and listed on the Bank Credit Asset Registration and Transfer Center for trading, being first USD-denominated asset transfer deal and the first aircraft asset transfer deal of the Center. The cooperation with JD Finance was carried out in CEB Baitiao Co-brand Card, which realized cross-border cooperation with a mobile internet company and helped to promote its business transformation. With the upgraded Reassuring Loan product that had embedded multiple living scenarios, an innovative operating mode that integrated finance and people's living took shape preliminarily.

XI. Information Technology

During the reporting period, the Bank maintained its robust momentum for operation, with no major security incidents incurred. It was ranked top among the joint-stock commercial banks by CBRC in terms of information management ratings.

The Bank successively rolled out a raft of major systems, which included the core business system (version 3.0), the new-generation corporate business management system, the new-generation comprehensive bill business system, the corporation active liability management system, the smart teller machine platform, the internet financing system, the global financial markets business system, the customer line management system and the collateral management system. Technology innovations were forged ahead with more applications of emerging technologies including cloud computing, big data, blockchain and artificial intelligence (AI), the construction of cash management cloud platform, the introduction of big data-driven products including the Mega Retail Customer Portrait Supermarket, the launching of the blockchain credential system, incubation of call center of automatic speech recognition system and the multimedia customer service system, the application of the fingerprint and face recognition techniques, and the establishment of the bank-wide uniform biological recognition platform. The Bank vigorously improved technological innovations and made many award-winning results, which included seven technological achievements granted with the award for technological development by PBOC and three research projects receiving the IT risk management award from CBRC.

XII. Human Resources Management

Upholding the Party leadership of cadres' affairs, the Bank recruited competent management members, and exercised stringent supervision over them, so as to increase its credibility in personnel selection and utilization. In the meantime, it continued to build teams of employees, and pushed through the reform on optimizing employee position. Besides, the Bank allocated staff expenses reasonably and improved employee benefit packages, with a view to enhancing staff satisfaction. It integrated the bank-wide performance evaluation system, emphasized the process control, and worked hard to put the evaluation findings into application, in a bid to get the most out of the evaluation and incentive mechanism. In addition, the Bank also exercised more stringent control over the major links of the personnel management, and intensified management of dispatched staff members in the hope of sustaining business compliance.

XIII. Investment Analysis

i. As at the end of the reporting period, the balance of the Bank's long-term equity investments amounted to RMB4,410 million, representing an increase of RMB1,041 million or 30.90% as compared with the previous year.

ii. Material Equity Investments

Unit: RMB ten thousand, ten thousand shares, %

Investee	Principal Business	Investment amount	Number of shares held	Percentage of shareholding	Profit or loss in the reporting period	Partner
Everbright Financial Leasing Co., Ltd.	Financial leasing	270,000	333,000	90	57,403	Wuhan New Harbor Construction and Investment Development Group Co., Ltd., Wuhan Rail Transit Construction Co., Ltd.
Shaoshan Everbright Village Bank Co., Ltd.	Commercial banking	10,500	10,500	70	1,348	Sany Group Co., Ltd., Hunan Poly Real Estate Development Co., Ltd., Changsha Tongcheng Holding Co., Ltd., Shaoshan City Construction Investment Company Limited
Jiangsu Huai'an Everbright Village Bank Co., Ltd.	Commercial banking	7,000	7,000	70	1,657	Jiangsu East Golden Fox Garment Co., Ltd., Huai'an Shuanglong Weiye Technology Co., Ltd., Jiangsu Taihua Pharmaceutical Company Limited, Nanjing Mengdu Tobacco Packing Co., Ltd.
CEB International Investment Co., Ltd.	Investment banking	HKD1,600 million	–	100	HKD1.28 million	Nil
China Everbright Bank (Europe) S.A.	Full-licensed banking business	EUR20 million	–	100	EUR-2,568.2 thousand	Nil
China UnionPay Co., Ltd.	Bank card interbank information exchange network	9,750	7,500	2.56	1,010,788	Other commercial banks, etc.

Notes:

1. All the above-mentioned major equity investments were made with proprietary fund.
2. All the above-mentioned major equity investments were long-term investments.
3. All the above-mentioned equity investments were not subject to any litigation.

iii. During the reporting period, the Bank had no material non-equity investment, and conducted bond investment in the ordinary course of its businesses. Please refer to the afore-mentioned for details.

iv. Financial assets designated at fair value during the reporting period

The Bank held domestic and overseas bonds and financial derivative instruments measured at fair value in the ordinary course of its business. Please refer to “Notes to the Financial Statements” for details.

XIV. During the reporting period, there was no material disposal of equity interest of the Bank.

XV. Analysis of Major Companies in Which the Bank Held Equity

i. Everbright Financial Leasing Co., Ltd.

Established in May 2010, the company is engaged in financial leasing business. It is registered in Wuhan City, Hubei Province with a registered capital of RMB3,700 million. During the reporting period, the company mainly focused its financial leasing business on the following four business segments: non-standard equipment leasing, aircraft facility leasing, automobile leasing, and healthcare equipment leasing. As at the end of the reporting period, its total assets, net assets and net profit were RMB64,673 million, RMB5,778 million and RMB574 million, respectively.

ii. Shaoshan Everbright Village Bank Co., Ltd.

Founded in September 2009, the village bank is engaged in commercial banking services including deposit taking, lending, etc. It was registered in Shaoshan City, Hunan Province with a registered capital of RMB150 million. During the reporting period, it continued to work hard to serve farmers, agriculture and rural areas, and developed the small and micro-sized corporate business, which helped support the growth of country economy by exploring ways of supporting rural economic development with its financial products and services. As at the end of the reporting period, its total assets, net assets and net profit were RMB982 million, RMB204 million and RMB13.48 million, respectively.

iii. Jiangsu Huai’an Everbright Village Bank Co., Ltd.

Incorporated in February 2013, the village bank was engaged in commercial banking services including deposit taking, lending, etc. It was registered in Huai’an City, Jiangsu Province with a registered capital of RMB100 million. During the reporting period, it continued to serve farmers, agriculture and rural areas, and developed the small and micro-sized corporate business, which achieved steady growth. As at the end of the reporting period, its total assets, net assets and net profit were RMB1,017 million, RMB122 million and RMB16.57 million, respectively.

iv. CEB International Investment Corporation Limited

Registered with a capital of HKD1,600 million in Hong Kong in June 2015, the company has been licensed in securities trading, securities consulting, financial consulting and asset management business. In the reporting period, the Company focused on developing such investment banking businesses as listing sponsor and underwriting, public offering and placement of new shares on secondary market, and enterprise refinancing. As at the end of the reporting period, its total assets, net assets and net profit were HKD6,758 million, HKD1,497 million and HKD1.28 million, respectively.

v. China Everbright Bank (Europe) S.A.

The company was incorporated in Luxembourg in July 2017 with a registered capital of EUR20 million. As a fully-licensed banking institution, it is mainly engaged in deposit taking, loan granting, bill and bond issuance and any other business that can be conducted by credit institutions according to local laws. During the reporting period, it focused its efforts on developing export refinance and domestic guarantee for overseas loans. As at the end of the reporting period, its total assets, net assets and net profit were EUR63.633 million, EUR17.4318 million and EUR-2.5682 million, respectively.

XVI. Special Purpose Entities Controlled by the Bank and Structured Products

i. There are no special purpose entities controlled by the Bank.

ii. The structured products whose equities are held by the Group but not recognized in the consolidated financial statements mainly include special asset management plans. Please refer to "Notes to the Financial Statements" for details.

XVII. Risk Management

i. Credit risk management

The Bank continued to optimize its comprehensive risk management framework, broke down and clarified the responsibilities of credit business agencies, departments and positions with respect to credit risk management and asset quality control, following the principle of "full-range, whole-process and all-staff control", intensified efforts to build the three lines of defense, and increased the risk control efficiency over the key processes. At the same time, it pushed forward reform on risk management system and scheme, improved investment decision-making mechanisms in such business lines as asset management, interbank financial services, treasury and investment banking to support business development. The Bank enhanced its credit risk management of key group corporate customers, streamlined the procedures for extending credit to such customers, and regulated the unified credit management for such customers.

The Bank strove to optimize the credit structure, took serving the real economy as the fundamental approach to guarding against risk, actively supported enterprises in transformation and upgrading, and properly developed industrial finance in a down-to-earth manner. Based on the internet and technology, the Bank expanded marketing channels, improved service procedure, innovated in products and services and effectively developed inclusive finance and consumer finance. Based on major national strategies such as the "Three New Strategies", the construction of Xiong'an New Area and the development of "Guangdong-Hong Kong-Macao Greater Bay Area", the Bank made great efforts to develop infrastructure finance. In addition, inspired by investment banking approaches, the Bank strengthened integration of funds, products and channels, and carried out comprehensive financial services based on the actual demands of the real economy.

The Bank improved the all-round management system of asset quality, and strengthened the coordinated management over asset quality based on performance appraisal, supervision and responsibility inquisition mechanisms. In the meantime, it reinforced supervision and guidance for key branches in controlling NPLs and NPL ratio and disposal of large-amount risky loans, and controlled risk from the sources by adjusting the structure of loans by industry, customer and risk mitigation instruments. The Bank maintained overall stable asset quality by actively compressing and reducing special-mention loans, strengthening recovery of NPLs and strictly controlling new NPLs.

Please refer to “Notes to the Financial Statements” for more details.

ii. Liquidity risk management

The Bank held a prudent and stable attitude towards the liquidity risk management policy. While the de-leverage initiative gained momentum day by day, the Bank upheld “daytime liquidity security and regulatory attainment” as its bottom line for risk management, in a bid to keep the bank-wide liquidity risk management indicators within a reasonable range. By acting on regulatory guidance, the Bank made reasonable arrangement for its business volume and term structure, and lifted its refined management to higher level. At the same time, the Bank made preventive liquidity arrangements in advance, carried out stress tests on a regular basis, adjusted internal fund transfer price dynamically, explored diversified liability channels, promptly assessed the potential risks, optimized liquidity contingency plans, and enhanced the ability to withstand liquidity risk.

Please refer to “Notes to the Financial Statements” for further details.

iii. Market risk management

The Bank continued to improve its market management mechanism, optimized the investment decision-making mechanism and the market risk management procedures, and extended the coverage to such business line as financial markets, precious metal trading, interbank financial service and investment banking, etc.. At the same time, the Bank endeavored to predict and analyze the interest rate risk and foreign exchange rate risk, continued to follow up with market risk exposure and market change, and carried out stress tests on a regular basis. The Bank also promoted the construction of of market risk measuring engines, enhanced the capabilities of information integrating and risk measurement, reinforced the limits management, and continuously monitored, controlled and reported limits occupancy. The Bank managed to control all market risk indicators within the reasonable range according to its risk appetite.

Please refer to the “Notes to the Financial Statements” for further details.

iv. Operational risk management

As required by the risk control and self assessment (RCSA) tools and relevant assessment procedures, the Bank carried out risk self assessment at regular intervals. Upholding the general principle of “hierarchical management with clearly-cut priorities”, the Bank emphasized responsibilities of all lines of business and functional departments as “the first line of defense” in operational risk management, made efforts to collect, summarize and analyze the operational risk loss events, and practiced timely prediction, warning, reporting and disposing of internal and external operational risk in order to substantially prevent the occurrence of material operational risk events or cases. At the same time, the Bank continued to review the key indicators in respect to operational risk, carried out monitoring, warning and analyzing of these indicators. The emergency response mechanism for significant events was further improved.

Please refer to “Notes to the Financial Statements” for further details.

v. Compliance risk management

The Bank kept reinforcing the compliance risk management by establishing sound internal control and compliance systems as well as improving the effective internal control and compliance measures at local outlets. The Bank closely followed up with the changes in external laws and regulations and correspondently upgraded its regulatory library from time to time. The annual assessment and review of rules and policies were carried out in a bid to improve the Bank's policy environment. The Bank utilized its system on monitoring function to strengthen early warning management of daily internal control and compliance inspections. Additionally, the Bank carried out the screening, compliance investigation and audit checks of employees' abnormal conducts and reinforced the rectification on problems identified. It stepped up efforts on the publicity and training on internal control and compliance so as to help the entire staff raise their awareness in this regard.

vi. Reputational risk management

Reputation risk was regarded as an important integral part of the Bank's comprehensive risk management system. Guided by the overall principle of "early warning, thorough analysis and proper disposal", the Bank kept lifting the reputational risk management to a higher level, strengthen the team building, intensified training and evaluation efforts, and conducted emergency drills and risk inspection at regular intervals. The Bank made better prediction of potential reputational risk and introduced the reputational risk evaluation mechanism governing the major decision-making process. Meanwhile, reputational risk-related factors were taken into full account in product design, business development and customer services, which effectively helped the Bank maintain good reputation and image.

vii. Anti-money laundering (AML) management

The Bank steadily advanced the pilot program of AML centralized operations. It continued to develop the AML internal control system, improved the functions of the AML suspicious transaction monitoring and reporting system, and intensified efforts to monitor and identify behaviors in breach of laws and regulations. At the same time, the Bank constantly improved the AML watch list system, and put high-risk customers under intensified management. The Bank also reported the data of large-amount and suspicious transactions to the regulators in time, and assisted them in conducting investigations.

XVIII. Outlook of the Bank

i. Competition landscape and development trend of the industry

In 2018, the Chinese banking industry will center on the three major missions of "serving the real economy, forestalling systemic financial risk, and deepening financial reform" by pursuing supply-side structural reform as our main task in a bid to prevent the occurrence of systemic financial risks, and make more contribution to the development of the modern economic system.

ii. Development strategy

The Bank will insist on reform and innovation, seek stable development, and strive to develop itself into a first-class Chinese joint-stock commercial bank that bears vision and value, seeks for quality, featured and innovative development, never oversteps its bottom line, and is reputable, dynamic and responsible, in order to create greater values for the shareholders and customers.

The Bank will change its mode of growth, gather its pace in strategic transformation, consolidate its management foundation, in a bid to enhance its profitability and highlight its features in wealth management. At the same time, it will make greater strides in financial technology innovation, hold on to the bottom line of risk management, and deliver higher-quality services and experiences to customers. To sum up, the Bank will embark on a new journey of developing itself into a top-notch Chinese joint-stock bank in every respect.

iii. Business plan

In 2018, the Bank will remain true to its original aspiration and remain concentrated on its core business. It will sustain stable growth of funds from their sources, and bring liability cost under efficient control; by focusing on customer, the Bank will increase comprehensive income. The Bank will strive to meet the requirement for capital-intensive development. With the proficiency as the priority, the Bank will transform itself to adopt refined management If there should be no significant change in current operating environment and regulatory policies, the Bank will strive to achieve a loan growth rate of no lower than 10%. This business plan does not constitute a performance commitment of the Bank to investors, who shall maintain sufficient risk awareness and understand the discrepancy between business plan and performance commitment.

iv. Capital demand plan

The Bank will continue to improve the capital management system, formulate capital plans and capital management policies based on the Bank's financial budget, strategic planning and stress testing findings. Proceeding from its actual conditions, the Bank will strengthen the endogenous type of capital replenishment mechanism and expand external replenishment channels. At the same time, it will implement counter-cyclical capital management and increase the capital reserve in order to smooth the influence of economic fluctuation and regulatory changes so as to realize sustainable development.

v. Potential risks and counter measures

Internationally, in 2018, the world economy is likely to realize recovery, but a number of uncertainties and instabilities will still remain. Policy changes of major economies and their spillover effects may bring about uncertainties, and protectionism might intensify. As a result, there may be increasing geopolitics risk and uncertainty. Therefore, the Chinese banking industry still has to tackle with a highly complicated external environment. From the domestic point of view, China's economy is experiencing the pivotal time for transforming the growth model, improving economic structure, and fostering new drivers of growth. China's financial sector exercises efficient control over risks on the whole. However, it is still in a period prone to various risks and thus has to face a complicated situation.

Committed to seeking progress while keeping performance stable, the Bank will focus on improving the quality and efficiency of development, and strengthen risk management and internal control. At the same time, it will gather pace in operational transformation, and keep enhancing the ability in seeking for sustainable development. To this end, the Bank will get the following aspects of work done properly. Firstly, taking operational compliance as a bottom line that won't be overstepped by any means, and cracking down misconducts that disrupt the normal market order with well-rounded and solid efforts. Secondly, taking asset quality as a bottom line that won't be overstepped by any means, and exercising stringent control over asset quality in every aspect. Thirdly, taking secure operation as a bottom line, ensuring operating security by technological means, and lifting operational management to a higher level.

Significant Events

I. Formulation and Implementation of Profit Distribution Policy

i. Profit Distribution Policy

In accordance with the profit distribution principle, specific policies and procedure of consideration stipulated in the *Articles of Association* of the Bank, the Bank shall prioritize cash dividends in profit distribution. Except for special situations, the profit to be distributed in cash each year shall be no less than 10% of the distributable profit of the year if both the profit for the year and the accumulated undistributed profit are positive.

ii. The Profit Distribution Plan for 2017

Taking into account the interests of all shareholders, sustainable development of the Bank's business and the requirements of regulators on capital adequacy ratio, and pursuant to the provisions of the *Company Law*, the *Securities Law* and the relevant requirements of the *Articles of Association* of the Bank, the Bank hereby formulates its 2017 profit distribution plan as follows:

1. Taking the net profit of the Bank of RMB31,033,438.4 thousand in 2017 as base, a statutory common reserve fund of RMB3,103,343.8 thousand was drawn at a rate of 10%.

2. According to the relevant provisions of *Regulations on Creation and Management of Provisions by Financial Institutions* promulgated by the Ministry of Finance, a general reserve of RMB808,904.7 thousand was withdrawn at 1.5% of risk assets in 2017.

3. Distribution of dividends to shareholders of preference shares amounted to RMB1,450 million (RMB1,060 million distributed on 26 June 2017 and RMB390 million distributed on 11 August 2017).

4. A total of RMB9,500,532.0 thousand of cash dividends was distributed to all shareholders of ordinary shares, with RMB1.81 (before tax) for per 10 shares. The cash dividends were denominated and issued in RMB, paid to shareholders of A shares in RMB and paid to shareholders of H shares in HKD. The actual amount paid in HKD shall be calculated based on the average exchange rate of RMB against HKD announced by the PBOC one week prior to the shareholders' meeting (including the date of the shareholders' meeting).

5. In 2017, the Bank did not implement capitalization of capital reserve funds.

6. The retained undistributed profits will be used to replenish capital, which meets the capital adequacy ratio supervision requirements.

The above profit distribution plan shall be reviewed and approved at the 2017 Annual General Meeting of the Bank.

The profit distribution plan for 2017 of the Bank did not make any adjustment or amendments to the existing cash dividend policy of the Bank. The profit distribution plan complied with the *Articles of Association* of the Bank, which defined clear and definite standards and proportion for dividend distribution as well as complete decision-making procedures and mechanism. The Board of Directors and the Board of Supervisors discussed and considered the profit distribution plan and Independent Non-Executive Directors performed their duties to safeguard the legitimate rights and interests of medium and small shareholders. The above profit distribution plan will be subject to the Annual General Meeting of the Bank where all of the ordinary shareholders including medium and small shareholders will be able to participate and express their views and demands. The Annual General Meeting of the Bank shall open the online voting, when the votes of medium and small shareholders in relation to the profit distribution plan will be counted separately as to fully protect the lawful rights interests of medium and small shareholders.

iii. Profit Distribution of Ordinary Shares and Cash Dividends for the Last Three Years

Unit: RMB million, %

Item	2017	2016	2015
Cash dividends	9,500.53	4,574.55	8,869.03
Proportion to net profit attributable to holders of equity shares of the Bank	30.12	15.08	30.04

II. Important Undertakings and Performance of Undertakings Given by the Bank and the Bank's Actual Controllers, Controlling Shareholders or other Related Parties

i. CHI, a substantial shareholder of the Bank, undertook that as long as CHI is the controlling shareholder or actual controller of the Bank, CHI shall not be engaged in competitive business with the Bank. However, since CHI has been the investment arm of the Chinese government specialized in investing in banks and other financial institutions, the business of companies under CHI is not obligated with this undertaking. CHI's undertaking in this regard is effective for a permanent term. As at the end of the reporting period, there was no breach of undertakings committed by CHI.

Significant Events

ii. Pursuant to the relevant provisions of the CSRC, to ensure the Bank shall effectively implement remedy measures in relation to the proposed public issuance of convertible bonds, all directors and senior management members of the Bank promised to faithfully and diligently perform their duties, safeguard the legitimate rights and interests of the Bank and all shareholders, and made the following commitments:

1. No interests shall be transferred to other entities or individuals for free or in an unfair way, and not to jeopardize the interests of the Bank by other means;

2. They shall be thrifty, their work duty-related consumption shall be under restriction in strict compliance with the relevant requirements at the national, local and the Bank level, and they shall refrain from over-consumption and extravagance and waste;

3. The assets of the Bank shall never be utilized in any investment or consumption activities irrelevant with the performance of their duties;

4. The remuneration policy formulated by the Board of Directors or the Remuneration Committee shall be linked to the implementation of remedy measures for the return by the Bank;

5. If the Bank launches any equity incentive scheme in the future, the conditions for exercising its rights under the intended equity incentive scheme shall be linked to the implementation of remedy measures for the return by the Bank.

On 17 March 2017, the Bank made a public issuance of A shares convertible bonds of RMB30 billion. There had been no violation of the undertaking above by the directors and senior management members of the Bank.

iii. According to the Bank's plan on non-public issuance of H shares, Everbright Group and Overseas Chinese Town Holdings Company respectively undertook that the H shares they subscribed from this issuance shall not be transferred within 60 months after the issuance ended.

On 22 December 2017, the Bank issued the 4.2 billion H shares to Overseas Chinese Town Holdings Company and the 1.61 billion H shares to Everbright Group. As at the end of the reporting period, there was no breach of undertakings committed by either of the aforesaid two companies.

As far as the Bank is aware, other than the above matters, there is no material undertaking given by the Bank and the Bank's Shareholders, Directors, Supervisors, Senior Management Members or other related parties.

III. Reserve

Please refer to "Consolidated Statement of Changes in Equity" for details about reserve change of the Bank.

IV. Fixed Assets

Please refer to "Notes to Financial Statements" of the Bank for details about the changes in fixed assets of the Bank as at the end of the reporting period.

V. Purchase, Sale or Repurchase of the Bank's Listed Securities

During the reporting period, the Bank and its subsidiaries did not purchase, sell or repurchase any listed securities of the Bank.

VI. Pre-emptive Rights

The *Articles of Association* of the Bank do not provide on pre-emptive rights, and shareholders of the Bank have not been granted any pre-emptive right.

VII. Retirement and Benefits

Please refer to "Notes to Financial Statements" for details about the retirement and benefits provided by the Bank to its employees.

VIII. Major Customers

During the reporting period, the operating income contributed by the top 5 major customers of the Bank did not exceed 30% of the Bank's operating income.

IX. Use of Capital by the Controlling Shareholders or Other Related Parties of the Bank for Non-operating Purposes

During the reporting period, there was no non-operational capital occupation by the controlling shareholder or other related parties of the Bank. Ernst & Young Hua Ming LLP has issued a special audit opinion.

X. Changes in Accounting Policies

As per the *Accounting Standards for Business Enterprises No.16—Government Subsidies* which was newly revised by the Ministry of Finance, the Bank adopted the prospective application to address the existing government subsidies as at 1 January 2017, and adjusted those newly increased between 1 January 2017 and 12 June 2017 (the date when the revised Standards took effect) according to the newly revised standards. This change didn't exert significant impact on the Bank's net profit, total assets or net assets during the current and previous period.

XI. Appointment and Resignation of Accounting Firm

i. Appointment of Accounting Firm for Auditing the Annual Financial Statements of 2017

On 20 June 2017, the Bank convened the 2016 Annual General Meeting, deciding to appoint Ernst & Young Hua Ming LLP as the accounting firm in charge of the Bank's domestic auditing in 2017 (Gu Jun and Leung Shing Kit as certified public accountants for signature) and to appoint Ernst & Young as the accounting firm in charge of the Bank's overseas auditing in 2017 (Kam Cheong Geoffrey as certified public accountant for signature). The auditing fees payable to the two firms amounted RMB7.55 million (inclusive of reimbursement and value-added tax). Both of the two accounting firms shall provide the Bank with the auditing services for two consecutive years.

ii. Appointment of Accounting Firm for Internal Control Auditing

On 20 June 2017, the Bank convened the 2016 Annual General Meeting, deciding to appoint Ernst & Young Hua Ming LLP as its internal control auditor of 2017, and the auditing fees payable to Ernst & Young Hua Ming LLP stood at RMB0.75 million (inclusive of reimbursement and value-added tax).

XII. Matters Concerning Bankruptcy or Reorganization

During the reporting period, no bankruptcy or reorganization took place at the Bank.

XIII. Material Litigation and Arbitration Matters

During the reporting period, the Bank was not involved in any material litigation or arbitration.

XVI. Penalty Imposed on the Bank or its Directors, Supervisors, Senior Management Members, Controlling Shareholders and Actual Controllers

During the reporting period, none of the Bank, its Directors, Supervisors, Senior Management Members, controlling shareholders and actual controllers was subject to any investigation by the competent authorities, any mandatory measures by the judicial authorities or the disciplinary departments, transferal to the judicial authorities, criminal proceedings, investigation, administrative penalty or circulation of criticism by the CSRC, or public censure by any stock exchange, or any penalty with significant impact on the Bank's operation imposed by any other regulatory body.

XV. Credibility of the Bank, Its Controlling Shareholders and Actual Controllers

During the reporting period, the Bank, its controlling shareholders and actual controllers did not fail to comply with effective court judgments or repay significant matured debts.

XVI. Implementation of Stock Incentive Plan and Employee Stock Ownership Plan

As at the end of reporting period, the Bank did not implement any stock incentive plan or employee stock ownership plan.

XVII. Matters Concerning Connected Transactions of the Bank under the Rules Governing the Listing of Securities on HKSE ("the Hong Kong Listing Rules")

In accordance with the Hong Kong Listing Rules, the transactions between the Bank and its connected persons (as defined in the Hong Kong Listing Rules) constitute the connected transactions of the Bank. The Bank has monitored and managed these connected transactions in accordance with the Hong Kong Listing Rules.

i. Non-exempt Connected Transactions

1. Everbright Group's subscription of domestic convertible bonds

On 13 January 2017, with the approval of the Board of Directors, the Bank entered into an agreement with Everbright Group on subscription of convertible bonds, and announced the connected transaction with Everbright Group, under which the Group proposed to subscribe some of the domestic convertible bonds to be issued by the Bank (hereinafter referred to as "the Transaction"). The details of the specific mandate were set out in the Bank's announcement dated 13 January 2017 on "Connected Transaction—Subscription of Domestic Convertible Bonds by Connected Person". Since Everbright Group is a connected person of the Bank, the transaction constituted a connected transaction of the Bank and was subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. The Transaction was proposed to and passed by the independent shareholders by way of ordinary resolution at the 2017 First Extraordinary General Meeting of the Bank on 28 February 2017. The Transaction was completed in March 2017.

2. Everbright Group's subscription of newly-issued H shares

On 2 May 2017, with the approval of the Board of Directors, the Bank entered into an agreement with Everbright Group on subscription of H shares, and announced the connected transaction with Everbright Group, under which the Group proposed to subscribe the H shares to be issued in a non-public way by the Bank ("the Transaction"). The details of the specific mandate were set out in the Bank's announcement dated 2 May 2017 on "Issuance of H Shares and Connected Transaction in Accordance with Special Authorization—Subscription of New Shares by Connected Person". Since Everbright Group is a connected person of the Bank, the transaction constituted a connected transaction of the Bank and was subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. The Transaction was proposed and passed by independent shareholders at the 2016 Annual General Meeting of the Bank on 20 June 2017, the 2017 Second A Shareholders' Class Meeting and the 2017 Second H Shareholders' Class Meeting. The Transaction was completed in December 2017.

ii. Exempted Connected Transactions

During the reporting period, a series of connected transactions were carried out between the Bank and its connected persons in the ordinary course of business of the Bank. Pursuant to Chapter 14A of the Hong Kong Listing Rules, such connected transactions were exempted from reporting, annual review, announcement and independent shareholders' approval requirements.

XVIII. Material Contracts and Their Performance

i. Significant Events of Material Custody, Contracting or Leasing Assets of Other Companies, or Other Companies' Material Custody, Contracting or Leasing Assets of the Bank

Except for daily business, during the reporting period, there was no significant matter in relation to any material arrangement for custody, contracting and leasing of assets by or to the Bank.

ii. Significant Guarantee

The provision of guarantee is in the ordinary course of business at the Bank. During the reporting period, the Bank did not enter into any material guarantee which needed to be disclosed save for the financial guarantees within its business scope as approved by the PBOC and the CBRC and those disclosed by the Report.

iii. Explanatory Notes and Independent Opinion of Independent Non-Executive Directors Concerning the Provision of External Guarantee by the Bank

In accordance with relevant regulations and requirements of the Circular Concerning Certain Issues including *Regulating the Capital Flow between Listed Companies and Their Related Parties and Listed Companies' Provision of Guarantee* (ZH.J.F. [2003] No.56) of CSRC, the Independent Non-Executive Directors of the Bank reviewed external guarantee provided by the Bank on a just, fair and objective basis and issued their opinion as follows:

It was verified that the provision of external guarantee is one of the routine operations within the Bank's business scope which has been approved by the PBOC and the CBRC. As at the end of the reporting period, the Bank continued to provide a guarantee for the RMB180 million payable interests of financial bonds issued by Everbright Group, and Everbright Group provided counter guarantee with its 50 million shares of a large securities firm. Save as disclosed, for the balance of the guarantee business of the Bank, please refer to the "Notes to the Financial Statements".

Attaching importance to the risk management of guarantee business, the Bank formulated specific business management measures and operating procedures, and effectively monitored and prevented risks in the guarantee business by on-site and off-site inspections. During the reporting period, no business in violation of the above-mentioned regulations took place in the Bank.

iv. Significant Authorization to Others in Matters Relating to Cash Assets Management

During the reporting period, there was no significant authorization to others in matters relating to cash assets management.

v. Other Material Contracts

During the reporting period, the Bank had no other material contracts, and all contracts regarding operations of ordinary business were duly performed.

XIX. Fulfillment of Social Responsibilities

The Bank has disclosed the full text of the 2017 Social Responsibilities Report. Please refer to the website of SSE, HKEX and the Bank for details.

XX. Poverty Alleviation

The Bank fully acted on the requirements of the CPC Central Committee, the State Council, the PBOC and the CBRC for reducing poverty with financial resources. Specifically, it improved the organizational structure, leadership and system of the poverty reduction work group; and explored the poverty reduction methods unique for the banking sector by capitalizing on both the integration of industry and finance and local superior resources. During the reporting period, the Bank continued to develop the "E-Commerce" serial platforms, and opened up green channels for the sales of specialty products from 11 provinces (autonomous regions) and more than 40 national-level poverty-stricken counties, thus blazing a new path toward poverty relief with e-commerce. At the same time, it took an active part in the drives to lift the designated regions out of poverty by assisting them in their infrastructure construction, industry development and education undertaking. While vigorously carrying out charitable poverty alleviation, the Bank supported the "Mother Water Cellar" for 13 consecutive years. In 2017, it spent RMB3 million on the program. As at the end of the reporting period, the total donations the Bank had made to the program were added up to RMB34.33 million, which provided 130,000 people who lived in poverty-stricken regions with access to safe drinking water.

Please refer to the 2017 *Social Responsibility Report* for more details of poverty alleviation.

XXI. Other Significant Events

i. Second Issuance of the Preference Shares

On 28 February 2017, the Bank had its proposal for second issuance of the preference shares worth no more than RMB50 billion considered and approved at the 2017 First Extraordinary General Meeting, the 2017 First A Shareholders' Class Meeting, the 2017 First H Shareholders' Class Meeting and the 2017 First Preference Shareholders' Class Meeting. On 28 February 2018, the Bank had its *Proposal on Reauthorizing the Board of Directors to Address the Issues Concerning the Non-public Issuance of the Preference Shares* at the 2018 First Extraordinary General Meeting, the 2018 First A Shareholders' Class Meeting, the 2018 First H Shareholders' Class Meeting and the 2018 First Preference Shareholders' Class Meeting. The authorization shall be valid for 12 months since the proposal took effect. As at the disclosure date of this Report, the event is in progress.

ii. Issuance of Tier-2 Capital Bonds

On 6 March 2017, the Bank issued for the first time the tier-2 capital bonds worth RMB28,000 million with the fixed coupon rate of 4.60% and a term of 10 years in the national interbank bond market, and is entitled to redeem the bonds at the end of the fifth year. On 29 August 2017, the Bank issued for the second time the tier-2 capital bonds worth RMB12,000 million with the fixed coupon rate of 4.70% and a term of 10 years, and is entitled to redeem the bonds at the end of the fifth year.

iii. Issuance of Convertible Corporate Bonds

On 17 March 2017, the Bank completed the issuance of the A share convertible bonds worth RMB30 billion. For more details, please refer to "Issuance of Convertible Corporate Bonds".

iv. Non-public Issuance of H Shares

On 22 December 2017, the Bank wrapped up the non-public issuance of 5.81 billion H shares. For more details, please refer to "Changes in Ordinary Shares Capital and Shareholders".

XXII. Significant Events of Subsidiaries

i. Everbright Financial Leasing Co., Ltd.

On 9 May 2017, the CBRC approved in its reply that the Bank could further invest no more than RMB1,980 million to Everbright Financial Leasing Co., Ltd. As at the disclosure date of the Report, the capital increase is in progress. During the reporting period, the company did not make profit distribution and got involved with no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged Ernst & Young Hua Ming LLP to audit its financial report.

ii. Shaoshan Everbright Village Bank Co., Ltd.

During the reporting period, Jiangsu Huai'an Everbright Village Bank Co., Ltd. distributed cash dividends of RMB4,275,900 among all equity shareholders. The village bank had no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged Baker Tilly China Certified Public Accountants to audit its financial report.

iii. Jiangsu Huai'an Everbright Village Bank Co., Ltd.

During the reporting period, Jiangsu Huai'an Everbright Village Bank Co., Ltd. distributed cash dividends of RMB6 million among all equity shareholders. The village bank had no material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged Huai'an Xinrui Public Accounting Firm to audit its financial report.

iv. CEB International Investment Corporation Limited

In April 2017, the Bank made a capital increase of HKD1 billion to the company. During the reporting period, the company did not make profit distribution and was not involved in any material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged Ernst & Young to audit its financial report.

v. China Everbright Bank (Europe) S.A.

During the reporting period, the Bank's application for establishing a wholly-owned subsidiary known as China Everbright Bank (Europe) S.A. in Luxembourg was approved by the European Central Bank. During the reporting period, the company did not make profit distribution and was not involved in any material litigation or arbitration, acquisition or disposal of major assets, material connected transaction, material contract, judicial or administrative investigation or administrative penalty. It engaged Ernst & Young Société anonyme to audit its financial report.

XXIII. Professional Liability Insurance for the Directors, Supervisors and Senior Management Members

During the reporting period and up to the disclosure date of this Report, the Bank established a professional liability insurance system for the Directors, Supervisors and Senior Management Members in accordance with relevant laws and regulations and the *Articles of Association* of the Bank. The *Articles of Association* of the Bank and such professional liability insurance system set out relevant permitted indemnity provisions, and such insurance policies shall cover compensations to the insured parties for relevant fees from relevant liabilities and possible litigations.

XXIV. Review of Annual Results

Ernst & Young Hua Ming LLP and Ernst & Young respectively audited the Bank's financial statements, which were prepared according to the PRC GAAP and IFRS, and issued the standard unqualified auditor's reports. The Board of Directors of the Bank and its Audit Committee have reviewed the annual results and financial reports of the Bank for 2017.

XXV. Publication of Annual Report

The Annual Report, in Chinese and English, prepared by the Bank in accordance with the IFRS and the Hong Kong Listing Rules, are available at the websites of the HKEX and the Bank.

Changes in Ordinary Shares Capital and Shareholders

I. Changes in Shares

Unit: share, %

		Before change		Changes during the reporting period			After change	
		Number	Percentage	Issuance of additional shares	Conversion of convertible bonds	Subtotal	Number	Percentage
I.	Shares subject to trading moratorium	–	–	5,810,000,000	–	5,810,000,000	5,810,000,000	11.07
	1. Shares held by state-owned legal persons	–	–	5,810,000,000	–	5,810,000,000	5,810,000,000	11.07
II.	Shares not subject to trading moratorium	46,679,095,000	100	–	32,138	32,138	46,679,127,138	88.93
	1. RMB-denominated ordinary shares	39,810,359,500	85.29	–	32,138	32,138	39,810,391,638	75.84
	2. Overseas listed foreign shares	6,868,735,500	14.71	–	–	–	6,868,735,500	13.09
III.	Total shares	46,679,095,000	100	5,810,000,000	32,138	5,810,032,138	52,489,127,138	100

II. Securities Issuance and Listing

i. Securities Issuance

On 25 July 2017, CBRC approved the Bank's plan for non-public issuance of H shares, agreeing the Bank to issue no more than 5.81 billion non-public H shares. On 15 December 2017, the issuance plan was approved by CSRC. On 22 December 2017, the Bank issued 4.2 billion and 1.61 billion H shares to Overseas Chinese Town Holdings Company and China Everbright Group Limited, with a nominal value of RMB1.00 each. All of these issued shares were ordinary shares. At the issue price of HKD5.3283 each share, a total of HKD30,957 million proceeds was raised (with the issue expenses to be deducted).

As at the end of the reporting period, a total of RMB137,000 A share convertible bonds were converted into ordinary shares of the Bank, and the accumulated converted shares reached 32,138 shares.

By the end of the reporting period, the total shares of the Bank increased to 52,489,127,138 shares, including 39,810,391,638 A shares and 12,678,735,500 H shares.

ii. Bond Issuance and Redemption

1. During the reporting period, the Bank made a public issuance of A share convertible bonds and got them listed on SSE for trading (abbreviation name: Everbright Convertible Bonds; code: 113011). For more details, please refer to "Issuance of Convertible Corporate Bonds".

2. During the reporting period, the Bank issued two phases of tier-2 capital bonds. For more details, please refer to "Significant Events".

3. During the reporting period, the Bank had no redemption of its convertible bonds or tier-2 capital bonds.

iii. There was no change in the total number of shares, shareholding structure or assets and liabilities structure of the Bank as a result of bonus issue, capitalization of capital reserves, rights issue, adoption or exercise of share incentive scheme, mergers, capital reduction, listing of internal employee shares, bond issuance or for other reasons.

iv. The Bank did not have any employee shares.

III. Number of Shareholders

Unit: Shareholder

	A Shares	H Shares
Total number of shareholders as at the end of the reporting period	233,298	978
Total number of shareholders as at the last trading day of the month prior to the disclosure of the A share annual report	222,255	–

IV. Shareholding of Top 10 Shareholders

Unit: Share, %

Name of shareholder	Nature of shareholder	Change in the reporting period (+, -)	Class of shares	Number of shares held	Shareholding percentage	Number of shares pledged/ frozen
China Everbright Group Ltd.	Domestic legal person	–	A Shares	11,565,940,276	22.03	–
		1,610,000,000	H Shares	1,782,965,000	3.40	–
Hong Kong Securities Clearing Company Nominees Limited including:	–	5,810,063,000	H Shares	12,673,094,480	24.14	Unknown
Overseas Chinese Town Holdings Company	Domestic legal person	4,200,000,000	H Shares	4,200,000,000	8.00	–
Ocean Fortune Investment Limited	Overseas legal person	-21,080,000	H Shares	1,605,286,000	3.06	–
China Life Reinsurance Company Ltd.	Domestic legal person	221,179,000	H Shares	1,530,397,000	2.92	–
Central Huijin Investment Ltd.	State	–	A Shares	10,250,916,094	19.53	–
China Securities Finance Corporation Limited	Domestic legal person	451,181,102	A Shares	1,681,790,353	3.20	–
China Everbright Limited	Overseas legal person	–	A Shares	1,572,735,868	3.00	–
China Reinsurance (Group) Corporation	Domestic legal person	-196,618,748	A Shares	413,094,619	0.79	–
		–	H Shares	376,393,000	0.72	–
Shenergy (Group) Co., Ltd.	Domestic legal person	–	A Shares	766,002,403	1.46	–
Zhuhai Shipping Corporation Limited	Domestic legal person	–	A Shares	723,999,875	1.38	–
Central Huijin Asset Management Ltd.	Domestic legal person	–	A Shares	629,693,300	1.20	–
Yunnan Hehe (Group) Co., Ltd.	Domestic legal person	–	A Shares	626,063,556	1.19	–

Notes:

1. As at the end of reporting period, 1.61 billion H shares held by Everbright Group and 4.2 billion H shares held by Overseas Chinese Town Holdings Company were subject to trading moratorium. Besides them, all other ordinary shares were not subject to trading moratorium.

2. Statement on the connected party relations or concerted action among the aforesaid shareholders: The Bank was aware that as at the end of the reporting period, CHI held 55.67% and 71.56% interest in China Everbright Group Limited. and China Reinsurance (Group) Corporation, respectively; Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of CHI; China Everbright Limited is a subsidiary indirectly controlled by China Everbright Group Limited; China Life Reinsurance Company Ltd. is a wholly-owned subsidiary of China Reinsurance (Group) Corporation; Zhuhai Shipping Corporation Limited and Ocean Fortune Investment Limited are both subsidiaries indirectly controlled by China Shipping (Group) Company. Save for the above, the Bank is not aware of any connected party relationship or concerted action among the above shareholders.

3. The total number of H shares of the Bank held by the Hong Kong Securities Clearing Company Nominees Limited acting as the nominee for all institutional and individual investors that maintain an account with it was 12,673,094,480 H shares as at the end of the reporting period. The Bank was aware that apart from the 4,200,000,000, 1,605,286,000, 1,530,397,000, 1,782,965,000 and 376,393,000 H shares of the Bank held by Overseas Chinese Town Holdings Company, Ocean Fortune Investment Limited, China Life Reinsurance Company Ltd., China Everbright Group Limited and China Reinsurance (Group) Corporation held respectively, all of which were under the name of Hong Kong Securities Clearing Company Nominees Limited, the number of remaining H shares of the Bank held under the name of Hong Kong Securities Clearing Company Nominees Limited was 3,178,053,480 H shares.

V. Time of Listing and Transaction for Shares Subject to Trading Moratorium

Unit: Share

Time	Number of shares available for listing and transaction upon the expiration of trading moratorium	Remaining shares subject to trading moratorium	Remaining shares not subject to trading moratorium
22 December 2022	5,810,000,000	5,810,000,000	46,679,127,138

VI. Shareholding of Top 10 Shareholders of Shares Subject to Trading Moratorium and Specific Trading Moratorium

Unit: Share

Name of shareholder of shares subject to trading moratorium	Number of shares subject to trading moratorium	Time of listing and transaction	Number of shares newly available for listing and transaction	Specific trading moratorium
Overseas Chinese Town Holdings Company	4,200,000,000	22 December 2022	–	H-share lock-up period
China Everbright Group Limited	1,610,000,000	22 December 2022	–	H-share lock-up period

VII. Confirmation of the Bank's Compliance with Requirement of Sufficiency of Public Float under the Hong Kong Listing Rules

Based on publicly available information and to the knowledge of the Directors, as at 31 December 2017, the Bank had maintained the minimum public float as required by the Hong Kong Listing Rules and the waiver granted by HKEX.

VIII. Profile of Substantial Shareholders of the Bank

i. China Everbright Group Limited

1. Basic information

Company name:	China Everbright Group Limited
Legal representative:	Li Xiaopeng
Date of establishment:	12 November 1990

Scope of business: investment in and management of financial enterprises, including banking, securities, insurance, funds, trust, futures, leasing and gold and silver transactions; asset management; investment in and management of non-financial enterprises. (Business activities shall be carried out subject to the Company's free choice according to law; business activities which are subject to relevant approval in accordance with applicable laws shall be carried out only after obtaining of such approvals granted by competent regulatory authorities; and no business activities in the prohibited or restricted categories of the municipal industry policies shall be carried out).

2. Shareholding in other domestic and overseas listed companies

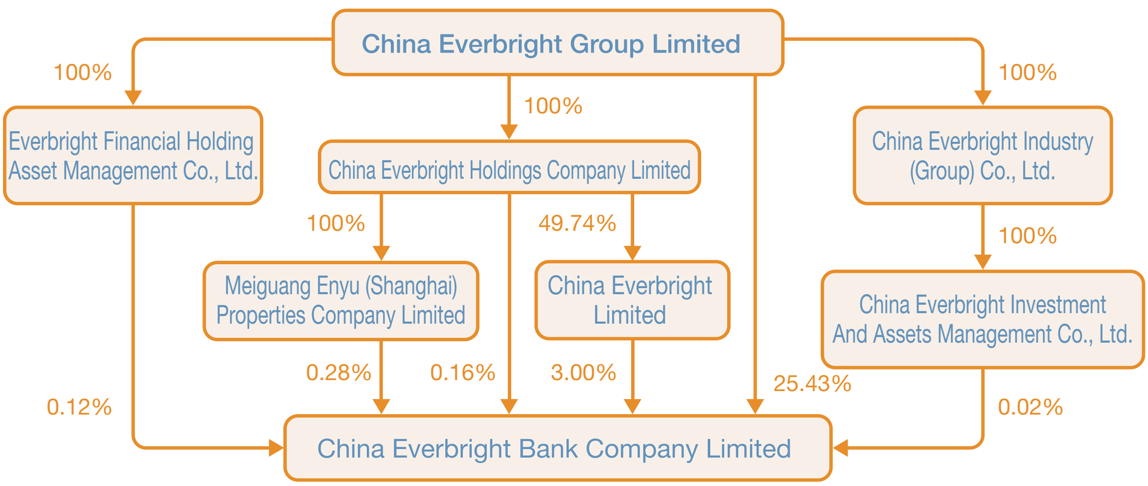
As at 31 December 2017, the shareholding of Everbright Group in other domestic and overseas listed companies were listed as follows:

Unit: %

Company name	Stock exchanges for listing	Shareholding percentage
Everbright Securities Co., Ltd.	SSE, HKEX	48.45
China Everbright Limited	HKEX	49.74
China Everbright International Limited	HKEX	41.40
China CYTS Tours Holding Co., Ltd.	SSE	20.00
Cachet Pharmaceutical Company Limited	Shenzhen Stock Exchange (SZSE)	16.72
Shenwan Hongyuan Group Co., Ltd.	SZSE	4.98

3. The controlling shareholder of Everbright Group is CHI with the shareholding percentage reaching 55.67%.

4. The shareholding relationship between Everbright Group and the Bank



Changes in Ordinary Shares Capital and Shareholders

ii. Central Huijin Investment Ltd.

1. Basic information

Company name:	Central Huijin Investment Ltd.
Legal Representative:	Ding Xuedong[1]
Date of establishment:	16 December 2003
Business scope:	Equity investment in major state-owned financial enterprises in accordance with authorization by the State Council; other relevant businesses approved by the State Council.

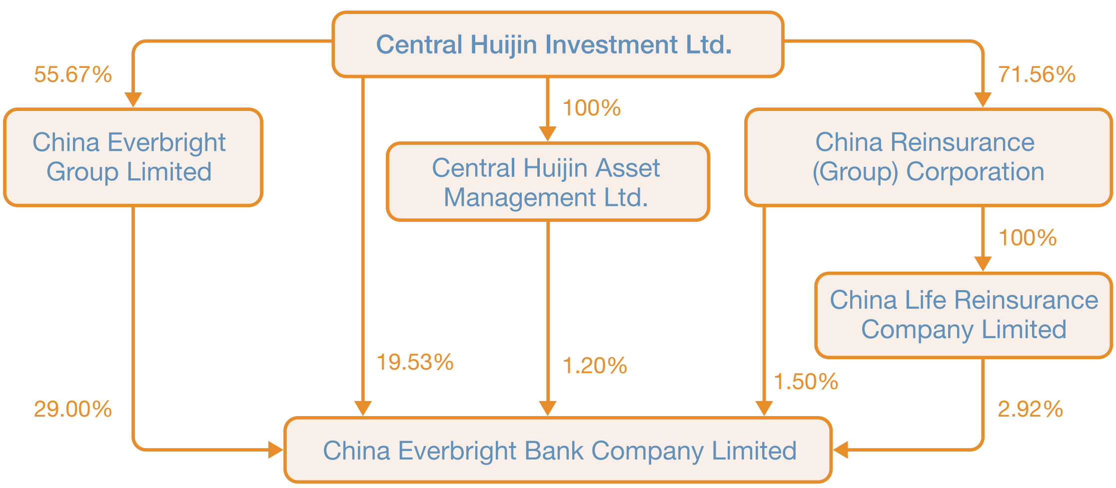
2. Shareholding in other domestic and overseas listed companies

Unit: %

Company Name	Stock Exchanges for Listing	Shareholding Percentage
Industrial and Commercial Bank of China Limited	SSE, HKEX	34.71
Agricultural Bank of China Limited	SSE, HKEX	40.03
Bank of China Limited	SSE, HKEX	64.02
China Construction Bank Corporation	SSE, HKEX	57.11
China Reinsurance (Group) Corporation	HKEX	71.56
New China Life Insurance Company Limited	SSE, HKEX	31.34
Shenwan Hongyuan Securities Co., Ltd.	SZSE	25.03
China International Capital Corporation Limited	HKEX	58.58
CSC Securities Co., Ltd.	HKEX	32.93

3. The controlling shareholder of CHI is CIC, and its shareholding ratio is 100%.

4. The shareholding relationship between CHI and the Bank is attached at the end of this Section.



1 Ding Xuedong has been transferred to serve as the Deputy Secretary General of the State Council (at the ministerial level), and he authorized Tu Guangshao to exercise the powers of CIC's legal representative, the Chairman and legal representative of CHI, which took effect as of 2 March 2017, and the authorization would expire until the State Council makes new appointments. Tu Guangshao is currently the Vice Chairman and General Manager of CIC.

iii. Other Shareholders Holding Shares of More than 5% or Having Significant Influence on the Bank[2]

1. Overseas Chinese Town Holdings Company holds more than 5% shares at the Bank. As one of the Bank's substantial Shareholders, the company has its controlling shareholder as the State-owned Assets Supervision and Administration Commission of the State Council of China, with the shareholding percentage up to 100%.

2. Although China Reinsurance (Group) Corporation holds less than 5% of the shares of the Bank, it still constitutes a substantial shareholder of the Bank since it dispatches directors to the Bank. Its controlling shareholder is CHI, with the shareholding percentage up to 71.56%.

3. Zhuhai Shipping Corporation Limited and Ocean Fortune Investment Limited, totally holding less than 5% of the shares of the Bank, are subsidiaries indirectly controlled by China COSCO Shipping Corporation Limited, which dispatches its directors to the Bank (the nomination of the directors have been considered and approved by the Board of Directors and Shareholders' Meeting of the Bank, while the qualifications of the nominated directors are still to be ratified by the CBRC). Therefore, the two companies are substantial shareholders of the Bank.

4. China Everbright Limited, a subsidiary indirectly controlled by Everbright Group, holds less than 5% of the shares of the Bank but dispatches supervisors to the Bank, thus constituting one of the Bank's substantial shareholders.

5. Shenergy (Group) Co., Ltd. holds less than 5% of the shares of the Bank but dispatches its supervisors to the Bank, thus constituting one of the Bank's substantial shareholders. The company is under the actual control of Shanghai Municipal State-owned Assets Supervision and Administration Commission.

[2] The *Interim Measures for Equity Management of Commercial Banks* (CBRC [2018] No.1) stipulates that a substantial shareholder of a commercial bank refers to a shareholder who holds or controls more than 5% of the shares or voting rights of the bank, or holds less than 5% of the total shares of the bank but exerts a significant influence on the operation and management of the bank; "significant influence" mentioned above refers to the impact on the Bank's financial status and operation and management exerted by personnel including but no limited to dispatched directors, supervisors or senior managers in the bank by contracting or other means, or other circumstances defined by CBRC or other dispatching institutions.

IX. Interests or Short Positions of Substantial Shareholders and Other Persons in Shares and Underlying Shares of the Bank under Hong Kong Laws and Regulations

As at 31 December 2017, as far as the directors and supervisors of the Bank were aware, the following persons or corporations (other than directors, supervisors or chief executives of the Bank) had interests and short positions in the shares or underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance of Hong Kong ("HKSFO") or which were required to be notified to the Bank:

Name of substantial shareholder	Notes	Class of shares	Type of interest	Long/ Short position	Number of shares	Percentage of relevant shares in issue (%)[4,5]	Percentage of the total issued shares (%)[4,5]
China COSCO Shipping Corporation Limited	1	H Shares	Interest of controlled corporation	Long	1,605,286,000	12.66	3.05
China Shipping (Group) Company	1	H Shares	Interest of controlled corporation	Long	1,605,286,000	12.66	3.05
COSCO SHIPPING Financial Holdings Co., Limited	1	H Shares	Interest of controlled corporation	Long	1,605,286,000	12.66	3.05
Ocean Fortune Investment Limited	1	H Shares	Beneficial owner	Long	1,605,286,000	12.66	3.05
Central Huijin Investment Ltd.	2	H Shares	Interest of controlled corporation	Long	3,773,385,000	29.76	7.18
China Everbright Group Ltd.	2	H Shares	Beneficial owner/Interest of controlled corporation	Long	1,866,595,000	14.72	3.55
China Reinsurance (Group) Corporation	2	H Shares	Beneficial owner/Interest of controlled corporation	Long	1,906,790,000	15.03	3.63
China Life Reinsurance Company Ltd.	2	H Shares	Beneficial owner	Long	1,530,397,000	12.07	2.91
Overseas Chinese Town Holdings Company		H Shares	Beneficial owner	Long	4,200,000,000	33.12	8.00
China Everbright Group Ltd.	3	A Shares	Beneficial owner/Interest of controlled corporation	Long	15,375,917,552	38.62	29.29
Central Huijin Investment Ltd.	3	A Shares	Beneficial owner/Interest of controlled corporation	Long	26,669,621,565	66.99	50.80

Notes:

1. Ocean Fortune Investment Limited holds a long position in 1,605,286,000 H shares of the Bank directly. As far as the Bank is aware, Ocean Fortune Investment Limited is wholly-owned by COSCO SHIPPING Financial Holdings Co., Limited, while COSCO SHIPPING Financial Holdings Co., Limited is wholly-owned by China Shipping (Group) Company. China Shipping (Group) Company is wholly-owned by China COSCO Shipping Corporation Limited. In accordance with the HKSFO, China COSCO SHIPPING Corporation Limited, China Shipping (Group) Company and COSCO Shipping Financial Holdings Co., Limited are deemed to be interested in the 1,605,286,000 H shares held by Ocean Fortune Investment Limited.

2. China Life Reinsurance Company Ltd. holds a long position in 1,530,397,000 H shares of the Bank directly. China Reinsurance (Group) Corporation holds a long position in 376,393,000 H shares of the Bank directly. Everbright Group directly holds a long position in 1,782,965,000 H shares of the Bank. China Everbright Holdings Company Limited holds a long position in 83,630,000 H Shares of the Bank directly. As far as the Bank is aware, China Life Reinsurance Company Ltd. is wholly-owned by China Reinsurance (Group) Corporation, while 71.56% of the issued share capital of China Reinsurance (Group) Corporation is held by CHI, China Everbright Group Holdings Company Limited is wholly-owned by China Everbright Group Limited, while 55.67% of the issued share capital of Everbright Group is held by CHI. In accordance with the HKSFO, China Reinsurance (Group) Corporation is deemed to be interested in the 1,530,397,000 H shares held by China Life Reinsurance Company Ltd., while China Everbright Group Limited is deemed to be interested in the 83,630,000 H shares held by China Everbright Holdings Company Limited. Therefore, CHI is deemed to be interested in a total of 3,773,385,000 H shares of the Bank indirectly.

3. Everbright Group directly holds a long position in 13,586,625,426 A shares of the Bank. Everbright Group is deemed to be interested in a long position in a total of 1,789,292,126 A shares of the Bank held by its following subsidiaries:

   (1) China Everbright Limited directly holds a long position in 1,572,735,868 A shares of the Bank.

   (2) Meiguang Enyu (Shanghai) Properties Company Limited directly holds a long position of 148,156,258 A shares of the Bank.

   (3) China Everbright Investment and Assets Management Co., Ltd. directly holds a long position of 8,000,000 A shares of the Bank.

   (4) Everbright Financial Holding Asset Management Co., Ltd. directly holds a long position of 60,400,000 A shares of the Bank.

   Therefore, China Everbright Group Limited directly and indirectly holds a long position of 15,375,917,552 A shares of the Bank in total.

   CHI directly holds a long position in 10,250,916,094 A shares of the Bank, whereas China Reinsurance (Group) Corporation and Central Huijin Asset Management Ltd. directly hold a long position of 413,094,619 and 629,693,300 A shares of the Bank, respectively. As far as the Bank is aware, 100% of the issued share capital of Central Huijin Asset Management Ltd., 71.56% of the issued share capital of China Reinsurance (Group) Corporation and 55.67% of the issued share capital of China Everbright Group Limited are held by CHI respectively. In accordance with the HKSFO, CHI is deemed to be interested in the long position in 629,693,300 A shares held by Central Huijin Asset Management Ltd., the long position in 413,094,619 A shares held by China Reinsurance (Group) Corporation, and the long position in 13,586,625,426 A shares held by Everbright Group. Therefore, CHI directly and indirectly holds a long position of 26,669,621,565 A shares of the Bank in total.

4. As at 31 December 2017, the total issued share capital of the Bank was 52,489,127,138 shares, including 39,810,391,638 A shares and 12,678,735,500 H shares.

5. The percentage of shareholdings is calculated by rounding to two decimal places.

Save as disclosed above, as at 31 December 2017, the Bank had not been notified by any persons who had interests or short positions in the shares or underlying shares of the Bank which were required to be disclosed to the Bank under the provisions of Divisions 2 and 3 of Part XV of the HKSFO, or which were recorded in the register required to be kept by the Bank under Section 336 of the HKSFO.

X. Interests or Short Positions of Directors, Supervisors and Chief Executives in Shares, Underlying Shares and Debentures of the Bank under Hong Kong Laws and Regulations

As at 31 December 2017, as far as the directors and supervisors of the Bank were aware, none of the directors, supervisors or the chief executives of the Bank had any interests or short positions in the shares, underlying shares or debentures of the Bank or any of its associated corporations (as defined in the HKSFO) which were required to be recorded in the register required to be kept under Section 352 of the HKSFO, or which were required to be notified to the Bank and the HKEX pursuant to Divisions 7 and 8 of Part XV of the HKSFO, or which are required to be notified to the Bank and the HKEX pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")* set out in Appendix 10 to the Hong Kong Listing Rules nor had they been granted the right to acquire any interests in shares or debentures of the Bank or any of its associated corporations.

Changes in Preference Shares Capital and Shareholders

I. Issuance and Listing of Preference Shares for the Last Three Years

Unit: %, Ten Thousand Shares

Code	Abbreviation	Date of issuance	Issuance price (RMB)	Coupon rate	Issuance volume	Date of listing	Approved volume for listing and trading	Date of delisting
360013	Everbright P1	19 June 2015	100	5.30	20,000	21 July 2015	20,000	–
360022	Everbright P2	8 August 2016	100	3.90	10,000	26 August 2016	10,000	–

II. Use of Proceeds

All of the proceeds the Bank raised from the issuance of preference shares were used to replenish the other tier-1 capital.

III. Total Number of Preference Shareholders and Shareholdings of Top 10 Preference Shareholders

(I) Everbright P1 (Code of preference shares 360013)

Unit: Share, %

Number of preference shareholders as at the end of the reporting period (shareholder)					18	
Number of preference shareholders as at the last trading day of the month prior to the disclosure of this annual report (shareholder)					18	
Name of preference shareholder	Nature of shareholder	Changes in shareholding during the reporting period	Number of shares held	Percentage of shareholding	Type of shares	Number of shares pledged/frozen
Bank of Communications Schroder Fund Management Co., Ltd.	Others	–	37,750,000	18.88	Domestic preference shares	–
China CITIC Bank Corporation Limited	Others	–	17,750,000	8.88	Domestic preference shares	–
Chuangjin Hexin Fund Management Limited	Others	–	15,510,000	7.76	Domestic preference shares	–
BOCI Securities Limited	Others	–	15,500,000	7.75	Domestic preference shares	–
Bank of Communications International Trust Co., Ltd.	Others	–	15,500,000	7.75	Domestic preference shares	–
Hwabao Trust Co., Ltd.	Others	–	13,870,000	6.94	Domestic preference shares	–
China Resources SZITIC Trust Co., Ltd.	Others	–	13,870,000	6.94	Domestic preference shares	–
CCB Trust Co., Ltd.	Others	–	10,000,000	5.00	Domestic preference shares	–
China Ping An Property & Casualty Insurance Co., Ltd.	Others	–	10,000,000	5.00	Domestic preference shares	–
China Ping An Life Insurance Co., Ltd.	Others	–	10,000,000	5.00	Domestic preference shares	–

Note: China Ping An Property & Casualty Insurance Co., Ltd. and China Ping An Life Insurance Co., Ltd. have connected relations. Bank of Communications Schroder Fund Management Co., Ltd. and Bank of Communications International Trust Co., Ltd. have connected relations. Save for the above, the Bank is not aware of any connecting relationship or concerted actions among the above shareholders of preference shares and the top 10 shareholders of ordinary shares.

(II) Everbright P2 (Code of preference shares 360022)

Unit: Share, %

Number of preference shareholders as at the end of the reporting period (shareholder)					23	
Number of preference shareholders as at the last trading day of the month prior to the disclosure of this annual report (shareholder)					23	
Name of preference shareholder	Nature of shareholder	Changes in shareholding during the reporting period	Number of shares held	Percentage of shareholding	Type of shares	Number of shares pledged/ frozen
AXA SPDB Investment Managers Co., Ltd.	Others	–	16,470,000	16.47	Domestic preference shares	–
Shanghai Wisdom Asset Management Co., Ltd.	Others	–	13,090,000	13.09	Domestic preference shares	–
China Everbright Group Limited	Others	–	10,000,000	10.00	Domestic preference shares	–
China Life Insurance Company Limited	Others	–	8,180,000	8.18	Domestic preference shares	–
Postal Savings Bank of China Co., Ltd.	Others	–	7,200,000	7.20	Domestic preference shares	–
Bank of Communications Schroder Fund Management Co., Ltd.	Others	–	6,540,000	6.54	Domestic preference shares	–
Bank of Communications International Trust Co., Ltd.	Others	–	6,540,000	6.54	Domestic preference shares	–
China Resources SZITIC Trust Co., Ltd.	Others	–	3,680,000	3.68	Domestic preference shares	–
BOCI Securities Limited	Others	–	3,270,000	3.27	Domestic preference shares	–
HuaAn Future Asset Management (Shanghai) Limited	Others	–	3,270,000	3.27	Domestic preference shares	–
Bank of Hangzhou Co., Ltd.	Others	–	3,270,000	3.27	Domestic preference shares	–
China CITIC Bank Corporation Limited	Others	3,270,000	3,270,000	3.27	Domestic preference shares	–

Note: Bank of Communications Schroder Fund Management Co., Ltd. and Bank of Communications International Trust Co., Ltd. have connected relations. China Everbright Group Limited is one of the top 10 holders of the ordinary shares of the Bank. Save for the above, the Bank is not aware of any connecting relationship or concerted actions among the above shareholders of preference shares and the top 10 shareholders of ordinary shares.

IV. Profit Distribution of Preference Shares

1. Policy of profit distribution of preference shares

The first tranche under the first issuance of preference shares issued by the Bank in June 2015 (hereinafter referred to as the “First Tranche Preference Shares”) and the second tranche under the first issuance of preference shares issued in August 2016 (hereinafter referred to as the “Second Tranche Preference Shares”) are priced at coupon rates subject to adjustments at different intervals. The coupon rate shall remain unchanged for the first 5 years commencing from the issuance date. Subsequently, the coupon rate shall be adjusted once every 5 years. The coupon rate will remain unchanged for every new period. Through market consultation, the first coupon rate for the First Tranche Preference Shares was determined at 5.30%. Through market consultation, the first coupon rate for the Second Tranche Preference Shares was determined at 3.90%.

The dividends on the First and Second Tranche Preference Shares are non-cumulative, and the dividends shall be paid in cash annually. Under the circumstance that the Bank decides to cancel part of or all of the dividend payment of the Preference Shares, the undistributed dividends shall not be carried forward to the following dividend period. The Preference Shareholders are not entitled to the distribution of the remaining profit along with ordinary shareholders after receiving dividends at the agreed rate.

2. The profit distribution of preference shares

The Bank distributed the dividend for the First Tranche Preference Shares on 26 June 2017 at a dividend rate of 5.30% (before tax). The dividend for the Second Tranche Preference Shares was distributed on 11 August 2017 at a dividend rate of 3.90% (before tax). All these above-mentioned distribution proposals have been implemented.

According to relevant agreement, the Bank convened a board meeting at least ten working days prior to the dividend payment date of the First Tranche Preference Shares (i.e. 25 June 2018) and the Second Tranche Preference Shares (i.e. 11 August 2018) to consider issues relating to the dividend payment and issue announcements to notify the preference shareholders.

3. The amount and proportion of the distributed dividend of preference shares for the last three years

Unit: RMB million, %

Item	2017	2016	2015
Dividend amount	1,450	1,060	–
Proportion of distribution	100.00	100.00	–

Note: Proportion of distribution is based on the declared dividend and the agreed dividend payable for the year.

V. During the reporting period, there was no redemption of preference shares or conversion of preference shares into ordinary shares by the Bank.

VI. During the reporting period, there was no voting right restoration of the preference shares of the Bank.

VII. The Accounting Policies for Preference Shares of the Bank and Reasons

According to the provisions of the "*Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments*", "*Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments*" and "*Rules on Differentiating the Financial Liabilities and Equity Instruments and Relevant Accounting Treatment*" promulgated by the Ministry of Finance, the preference shares issued by the Bank were accounted for as an equity instrument.

Issuance of Convertible Corporate Bonds

I. Overview

On 17 March 2017, the Bank completed the issuance of the A share convertible bonds. The proceeds amounted to RMB30,000 million and the net funds stood at some RMB29,923 million after deducting the issuance expense. On 5 April 2017, the above-mentioned A share convertible bonds were listed on SSE (bond name: Everbright Convertible Bonds, stock code: 113011).

II. Convertible Bondholders and Guarantors during the Reporting Period

Unit: RMB,%

Convertible bond holders at the period end	9,692	
Guarantors of convertible bonds of the Bank	Nil	
Top ten convertible bond holders	**Par value of bond held at period end**	**Percentage of bonds held**
China Everbright Group Limited	8,709,153,000	29.03
Anbang Asset Management—China Merchants Bank (CMB)—Anbang Asset—Gongying No.3 Collective Asset Management Product	1,956,305,000	6.52
Specific account for collateralized bond repurchase in the securities depository and clearing system (Industrial and Commercial Bank of China (ICBC))	1,862,795,000	6.21
Specific account for collateralized bond repurchase in the securities depository and clearing system (China Merchants Bank Co., Ltd.)	1,029,020,000	3.43
Anbang Asset—China Minsheng Bank (CMBC)—Anbang Asset—Shengshi Jingxuan No.2 Collective Asset Management Product	983,998,000	3.28
Specific account for collateralized bond repurchase in the securities depository and clearing system (China Construction Bank (CCB))	941,477,000	3.14
Specific account for collateralized bond repurchase in the securities depository and clearing system (Bank of China (BOC))	829,194,000	2.76
Anbang Asset Management—CMBC—Anbang Asset—Wenjian Jingxuan No.1 Collective Asset Management Product (Phase V)	775,098,000	2.58
Specific account for collateralized bond repurchase in the securities depository and clearing system (Agricultural Bank of China (ABC))	727,098,000	2.42
Specific account for collateralized bond repurchase in the securities depository and clearing system (Bank of Communications (BoCom))	691,848,000	2.31

III. Changes in Convertible Bonds during the Reporting Period

For the A share convertible bonds issued by the Bank, the commencement date of the conversion period will be 18 September 2017, i.e. the first trading day after six months from the completion of the issuance; and the ending date will be 16 March 2023, i.e. the bond maturity date. During the reporting period, a total of RMB137,000 “Everbright Convertible Bonds” were converted into A shares of the Bank, and the accumulated converted shares reached 32,138 shares.

IV. Previous Adjustments of Conversion Price

On 4 July 2017 (the date of record), the Bank distributed dividends on ordinary shares (A share) for 2016. In accordance with the applicable provisions in the *Prospectus on Public Issuance of A Share Convertible Corporate Bonds* as well as the relevant laws and regulations, the Bank, after the issuance of A share convertible bonds, shall adjust the conversion price in the event of a dividend distribution. Therefore, after this dividend distribution, the "Everbright Convertible Bonds" saw its initial conversion price adjusted from RMB4.36 per share to RMB4.26 per share since 5 July 2017 (the ex-dividend date).

On 22 December 2017, the Bank completed the issuance of a total of 5,810,000,000 H shares to Everbright Group and Overseas Chinese Town Holdings Company. In accordance with the *Prospectus on Public Issuance of A Share Convertible Corporate Bonds* and applicable laws and regulations, the Bank will adjust the price of the issued A share convertible bonds in case the changes occur to the Bank's shares due to the newly issued shares. Therefore, after this non-public issuance of H shares, the Everbright Convertible Bonds saw its conversion price adjusted from RMB4.26 per share to RMB4.31 per share since 26 December 2017.

Unit: RMB per share

Date of adjustment	Conversion price after adjustment	Disclosure date	Media of disclosure	Reasons for adjustment
5 July 2017	4.26	27 June 2017	HKEX website	Refer to the above-mentioned contents for details.
26 December 2017	4.31	22 December 2017	HKEX website	Refer to the above-mentioned contents for details.
Conversion price at the end of the reporting period				4.31

V. The Bank's Outstanding Debts, Creditworthiness and Availability of Cash for Repayment of Debts in Future Years

In accordance with the applicable provisions in the *Administrative Measures for the Issuance of Securities by Listed Companies* and the *Rules Governing the Listing of Stocks on Shanghai Stock Exchange*, the Bank entrusted China Chengxin Securities Rating Co., Ltd. (hereinafter referred to as "China Chengxin" for short) to track and rate the credit standing of its A share convertible bonds issued in March 2017. China Chengxin issued the *Tracking and Rating Report on A Share Convertible Corporate Bonds (2017) of China Everbright Bank Company Limited*, maintaining the credit rating of the Bank's bond as AAA with a stable outlook and the credit rating of the bond issuer as AAA, incurring no change. The Bank managed to remain stable in all aspects of operation, as exemplified by the reasonable asset structure, the basically steady liabilities, and the robust credit position. In future years, cash flows from operating and investment activities will constitute the cash sources of debt service.

Directors, Supervisors, Senior Management, Staff, Branches and Outlets

I. Profile of Directors, Supervisors and Senior Management

Name	Position	Gender	Age	Terms of Office	Total remuneration from the Bank during the reporting period (Pretax, RMB ten thousand)	Whether received remuneration from the connected party
Li Xiaopeng	Secretary of CPC Committee of the Bank, Chairman, Non-Executive Director	Male	58	Mar. 2018 – Jun. 2019	–	Yes
Gao Yunlong	Vice Chairman, Non-Executive Director	Male	59	Dec. 2014-Jun. 2019	–	Yes
Zhang Jinliang	Deputy Secretary of CPC Committee of the Bank, Executive Director, President	Male	48	Aug. 2016-Jun. 2019 (serving as the President since Feb. 2016)	59.02	No
Cai Yunge	Non-Executive Director	Male	46	May. 2017-Jun. 2019	–	Yes
Ma Teng	Deputy Secretary of CPC Committee of the Bank, Executive Director, Executive Vice President	Male	59	Mar. 2015-Jun.2019 (serving as the Executive Vice President since Dec. 2010)	129.60	No
Li Jie	Member of CPC Committee of the Bank, Executive Director, Executive Vice President	Female	59	Sep. 2016-Jun. 2019 (serving as the Executive Vice President since Aug. 2003)	129.60	No
Zhang Shude	Non-Executive Director	Male	54	Sep. 2016-Jun. 2019	–	Yes
Li Huaqiang	Non-Executive Director	Male	59	Sep. 2016-Jun. 2019	–	Yes
Fu Dong	Non-Executive Director	Male	58	Mar. 2018 – Jun. 2019	–	Yes
Zhao Wei	Non-Executive Director	Male	46	Feb. 2015-Jun. 2019	–	Yes
Qiao Zhimin	Independent Non-Executive Director	Male	65	Jan. 2013-Jun. 2019	39.00	Yes
Xie Rong	Independent Non-Executive Director	Male	65	Jan.2013-Jun. 2019	37.00	No
Fok Oi Ling Catherine	Independent Non-Executive Director	Female	59	Jan. 2014 -Jun. 2019	37.00	Yes
Xu Hongcai	Independent Non-Executive Director	Male	53	Feb. 2015-Jun. 2019	–	No
Feng Lun	Independent Non-Executive Director	Male	58	Feb. 2015-Jun. 2019	36.00	Yes
Wang Liguo	Independent Non-Executive Director	Male	60	Jan. 2017-Jun. 2019	34.00	Yes
Li Xin	Chairman of the Board of Supervisors	Male	57	Jun. 2015-Jun. 2019	130.90	No
Yin Lianchen	Shareholder Supervisor	Male	51	Dec. 2014-Jun. 2019	–	Yes
Wu Junhao	Shareholder Supervisor	Male	52	Nov. 2009-Jun. 2019	–	No
Yu Erniu	External Supervisor	Male	68	Nov. 2012-Jun. 2019	27.50	Yes
Wu Gaolian	External Supervisor	Male	65	Jun. 2016-Jun. 2019	27.50	No
Wang Zhe	External Supervisor	Male	57	Nov. 2016-Jun. 2019	28.00	Yes
Sun Xinhong	Employee Supervisor	Male	50	Jun. 2017-Jun. 2019	124.07	No
Jiang Ou	Employee Supervisor	Male	52	Jun. 2017-Jun. 2019	91.14	No
Huang Dan	Employee Supervisor	Female	44	Jun. 2017-Jun. 2019	120.77	No

Directors, Supervisors, Senior Management, Staff, Branches and Outlets

Name	Position	Gender	Age	Terms of Office	Total remuneration from the Bank during the reporting period (Pretax, RMB ten thousand)	Whether received remuneration from the connected party
Zhang Huayu	Member of CPC Committee of the Bank, Executive Vice President	Male	59	Feb. 2006–	129.60	No
Lu Hong	Member of CPC Committee of the Bank, Executive Vice President	Male	54	Mar. 2009–	129.60	No
Wu Jian	Member of CPC Committee of the Bank, Executive Vice President, Secretary of CPC Committee of Beijing Branch, General Manager of Beijing Branch	Male	56	Jan. 2014–	104.60	No
Yao Zhongyou	Member of CPC Committee of the Bank, Executive Vice President	Male	54	May. 2014–	104.60	No
Huang Haiqing	Member of CPC Committee of the Bank, Secretary of Discipline Committee (Executive Vice President Level)	Male	53	Jun. 2016–	99.60	No
Sun Qiang	Member of CPC Committee of the Bank, Executive Vice President	Male	49	Aug. 2016–	99.60	No
Li Jiayan	Secretary to the Board	Male	54	Jan. 2018–	–	No
Total remuneration received from the Bank					1718.70	

Note:

1. The remuneration of Directors and Supervisors is subject to approval of the general meeting of shareholders;

2. The remuneration of certain Directors, Supervisors, and Senior Management of the Bank has not been finalized and an announcement will be made for further disclosure in due course.

3. The remuneration of Directors, Supervisors and Senior Management serving in 2017 was calculated according to the actual term of office.

4. Mr. Xu Hongcai, the Independent Non-Executive Director, received no remuneration from the Bank in 2017; Yu Erniu and Wu Gaolian, the External Supervisors, have not received remuneration from the Bank since December 2017.

5. During the reporting period, none of the Directors, Supervisors and Senior Management held any share of the Bank.

6. During the reporting period, the Bank had not implemented any share incentive scheme, and none of the Directors, Supervisors and Senior Management of the Bank held share option of the Bank's shares or was granted any restrictive shares.
7. None of the incumbent Directors, Supervisors and Senior Management of the Bank has not been subject to any penalty by any securities regulatory authorities in the recent three years.

8. Directors Li Xiaopeng, Gao Yunlong, Zhang Jinliang, Cai Yunge, Ma Teng and Li Jie were nominated by China Everbright Group Limited; Directors Zhang Shude, Li Huaqiang, and Fu Dong were nominated by CHI; and Director Zhao Wei was nominated by China Reinsurance (Group) Corporation.

9. Supervisors Li Xin, Yin Lianchen and Wu Junhao were nominated by China Everbright Limited.

10. As at the disclosure day of this report, CHI and Overseas Chinese Town Holdings Company nominated Shi Yongyan and He Haibin as the equity directors of the Bank respectively. The director qualifications of these two nominees are yet to be approved by the CBRC.

II. Directors, Supervisors and Senior Management who Resigned during the Reporting Period

Name	Position	Gender	Age	Terms of Office	Total remuneration from the Bank during the reporting period (Pre-tax, RMB ten thousand)	Whether received remuneration from the connected party
Resigned directors						
Tang Shuangning	Secretary of CPC Committee of the Bank, Chairman, Non-Executive Director	Male	63	Jul. 2007-Dec. 2017	–	Yes
Wu Gang	Non-Executive Director	Male	59	Mar. 2011-Jan. 2017	–	Yes
Zhang Xinze	Independent Non-Executive Director	Male	71	Nov. 2011-Jan. 2017	–	No
Resigned supervisors						
Mu Huijun	Vice Chairman of the Board of Supervisors	Male	61	Nov. 2009-Mar. 2017	21.60	No
Liu Yan	Employee Supervisor	Female	44	Jun. 2016-Jun. 2017	91.38	No
Deng Ruilin	External Supervisor	Male	68	Jun. 2016-Oct. 2017	–	No
Ye Donghai	Employee Supervisor	Male	54	Nov. 2012-Oct. 2017	176.45	No
Total remuneration received from the Bank					289.43	

Notes:

1. The remuneration of resigned Directors, Supervisors and Senior Management of the Bank for 2017 was calculated according to their actual term of office.

2. Deng Ruilin, the External Supervisor, received no remuneration from the Bank in 2017.

3. None of the directors, supervisors and supervisors and senior management members who resigned from the Bank has been subject to penalty from the securities regulatory authorities in the past three years.

III. Changes in Directors, Supervisors and Senior Management during the Reporting Period

i. Changes of Directors

1. On 10 January 2017, CBRC approved Mr. Wang Liguo to serve as the Independent Non-Executive Director.

2. On 10 January 2017, Mr. Zhang Xinze ceased to serve as Independent Non-Executive Director of the Bank, member of the Audit Committee, member of the Remuneration Committee, and member of the Related Party Transactions Control Committee of the Board of Directors of the Bank.

3. On 16 January 2017, due to job assignment, Mr. Wu Gang resigned from the positions of Non-Executive Director, member of the Remuneration Committee, and member of the Strategy Committee of the Board of Directors of the Bank.

4. On 9 May 2017, CBRC approved Mr. Cai Yunge to serve as Non-Executive Director of the Bank.

5. On 27 December 2017, Mr. Tang Shuangning resigned from the positions of Chairman, Non-Executive Director, Director and member of the Nomination Committee, and member of the Remuneration Committee of the Board of Directors of the Bank due to his retirement.

6. On 15 March 2018, CBRC approved Mr. Fu Dong to serve as Non-Executive Director of the Bank.

7. On 16 March 2018, CBRC approved Mr. Li Xiaopeng to serve as Non-Executive Director of the Bank.

ii. Changes of Supervisors

1. On 1 March 2017, Mr. Mu Huijun resigned from the positions of Vice Chairman of the Board of Supervisors, Employee Supervisor and member of the Supervision Committee of the Board of Supervisors of the Bank for reason of his age.

2. On 12 June 2017, due to job assignment, Ms. Liu Yan resigned from the positions of Employee Supervisor and member of the Nomination Committee of the Board of Supervisors of the Bank.

3. On 12 June 2017, Mr. Sun Xinhong, Mr. Jiang Ou and Ms. Huang Dan were elected as the Employee Supervisors of the Bank at the Meeting of Employee Representatives.

4. On 16 October 2017, due to job assignment, Mr. Ye Donghai resigned from the positions of Employee Supervisor and member of the Supervision Committee of the Board of Supervisors of the Bank.

5. On 20 October 2017, Mr. Deng Ruilin resigned from the positions of External Supervisor, member of the Nomination Committee and member of the Supervision Committee of the Board of Supervisors of the Bank for reason of his age.

iii. Changes of Senior Management

1. On 10 January 2017, CBRC approved Mr. Sun Qiang to serve as the Assistant President of the Bank. On 15 March 2018, CBRC approved Mr. Sun Qiang to serve as the Executive Vice President of the Bank.

2. On 30 October 2017, the 14th Meeting of the Seventh Session of the Board of Directors of the Bank agreed to appoint Mr. Li Jiayan as the Secretary to the Board of Directors of the Bank, whose appointment qualification was approved by the CBRC on 10 January 2018.

IV. Changes in Information of Directors and Supervisors

1. Mr. Ma Teng, Executive Director of the Bank, concurrently served as Chairman of China Everbright Bank (Europe) S.A..

2. Mr. Zhao Wei, Non-Executive Director of the Bank, concurrently served as Chairman of China Re Asset Management Company Ltd. and Director of Beijing Jingneng Clear Energy Co., Limited.

3. Mr. Feng Lun, Independent Non-Executive Director of the Bank, ceased to serve as President of Vantone Group and Chairman of Vantone Holdings Co., Ltd., and concurrently served as Executive Director of Beijing Sifang Yufeng Investment Co., Ltd. and Chairman of Beijing Vantone Citylogic Investment Corp.,

4. Mr. Yu Erniu, External Supervisor of the Bank, ceased to serve as Independent Non-Executive Director of the First-Trust Fund Management Co., Ltd., Independent Non-Executive Director of Hithink Flush Information Network Co., Ltd. and Director of Shanghai Benemae Pharmaceutical Corporation.

5. Mr. Wang Zhe, External Supervisor of the Bank, concurrently served as Independent Non-Executive Director of Boill Healthcare Holdings Limited.

V. Procedures for Determining the Remuneration of the Directors, Supervisors and Senior Management, Basis for Determining the Remuneration and the Actual Remuneration Paid

Remuneration of Directors and Senior Management of the Bank are approved and paid in accordance with the rules of relevant authorities as well as the *Articles of Association* of the Bank. The remuneration plan for Directors and Senior Management is reviewed by the Remuneration Committee of the Board of Directors before it is submitted to the Board of Directors for approval. The remuneration plan for Directors is further subject to the shareholders' general meeting for approval.

Remuneration of Supervisors of the Bank is verified and paid in accordance with the rules of relevant authorities and the *Articles of Association* of the Bank. The remuneration plan is reviewed by the Nomination Committee of the Board of Supervisors and then is considered by the Board of Supervisors, before it is subject to the shareholders' general meeting for approval.

Details about the Remuneration for the Directors, Supervisors and Senior Management of the Bank are available in part I of this section.

VI. Positions Held in Shareholding Company by Directors, Supervisors and Senior Management for 2017

Name	Name of shareholder	Position	Terms of Office
Li Xiaopeng	China Everbright Group Limited	Secretary of CPC Committee, Chairman	Dec. 2017 to the present
	China Everbright Group Holdings Limited	Chairman	Dec. 2017 to the present
Gao Yunlong	China Everbright Group Limited	Vice Chairman, General Manager	Jul. 2014 to the present
Zhang Jinliang	China Everbright Group Limited	Member of CPC Committee	Jan. 2016 to the present
		Executive Director	Mar. 2016 to the present
Cai Yunge	China Everbright Group Limited	Member of CPC Committee	Jul. 2016 to the present
		Deputy General Manager	Oct. 2016 to the present
	China Everbright Holdings Company Limited	Executive Director, Vice Chairman, General Manager	Dec. 2016 to the present
	China Everbright Limited	Executive Director, Chairman	Dec. 2016 to the present
Zhang Shude	Central Huijin Investment Ltd.	Designated Director	Aug. 2008 to the present
	China Everbright Group Limited	Director	Jun. 2016 to the present
Li Huaqiang	Central Huijin Investment Ltd.	Designated Director	Nov. 2010 to the present
	China Everbright Group Limited	Director	Jun. 2016 to the present
Fu Dong	Central Huijin Investment Ltd.	Designated Director	Dec. 2014 to the present
	China Everbright Group Limited	Director	Dec. 2014 to the present
Zhao Wei	China Reinsurance (Group) Corporation	Assistant President	Sep. 2015 to the present
Yin Lianchen	China Everbright Limited	Chief Investment Officer	Apr. 2012 to the present
		Executive Director	Jun. 2017 to the present
Wu Junhao	Shenergy (Group) Co., Ltd.	Manager of Financial Management Department	Apr. 2011 to the present

VII. Working Experience, Appointment and Concurrent Appointment of Directors, Supervisors and Senior Management

i. Directors

Mr. Li Xiaopeng

Mr. Li Xiaopeng joined the Bank as Chairman of the Board of Directors in March 2018 and has served as Secretary of CPC Committee of the Bank since December 2017. Currently, he is also Secretary of CPC Committee and Chairman of China Everbright Group Limited, Chairman of the Board of Directors at China Everbright Holdings Company Limited, Vice President of the China Urban Financial Society, Vice President of China Institute of Rural Finance, and Vice President of China Tourism Association. He was Member of CPC Committee and Deputy General Manager of Henan Provincial Branch, General Manager of the Operation Department of the Head Office of ICBC, Secretary of CPC Committee and General Manager of Sichuan Provincial Branch of ICBC, Member of CPC Committee and Vice President of China Huarong Asset Management Corporation, Member of CPC Committee and Assistant President of the Head Office of ICBC, Secretary of CPC Committee and General Manager of ICBC Beijing Municipal Branch, Member of CPC Committee, Vice President and Executive Director of the Head Office of ICBC, Deputy Secretary of CPC Committee and Chairman of the Board of Supervisors of China Investment Corporation, and Vice Chairman, General Manager and Deputy CPC Committee Secretary of China Merchants Group. He was also Chairman of ICBC International Holdings Limited, Chairman of ICBC Financial Leasing Co., Ltd., Chairman of ICBC Credit Suisse Asset Management Co., Ltd., Vice Chairman of China Merchants Bank Co., Ltd., Chairman of China Merchants Energy Shipping Co., Ltd., Chairman of China Merchants Port Holdings Company Limited, Chairman of China Merchants Huajian Highway Investment Co., Ltd., Chairman of China Merchants Capital Investment Co., Ltd., Chairman of China Merchants Joint Development Co., Ltd., and Chairman of China Merchants Investment Development Company Limited. He is a graduate of Wuhan University, holds a Doctoral degree in Economics, and is a senior economist. Mr. Li is a member of the National Committee of the Thirteenth Session of CPPCC.

Mr. Gao Yunlong

Mr. Gao Yunlong has served as Vice Chairman of the Bank since December 2014. He is at present the Vice Chairman of the National Committee of the Thirteenth Session of CPPCC. He currently serves as Chinaman of All-China Federation of Industry and Commerce, Vice Chairman and General Manager of China Everbright Group Limited, Non-Executive Director of Everbright Securities Co., Ltd., Director of Sun Life Everbright Life Insurance Co., Ltd., President of China Civil Chamber of Commerce and Chairman of China Democratic National Construction Association ("CDNCA"), Beijing Committee. He successively served as Deputy Division Head and Division Head in China Development Bank, Deputy Mayor of Baise of Guangxi Zhuang Autonomous Region, Vice Chairman and Chairman of Guangxi Zhuang Autonomous Region, Deputy Governor of Qinghai Province, Chairman of Qinghai Branch of CNDCA, Executive Director and Deputy General Manager of China Everbright (Group) Corporation. He graduated from Tsinghua University with a Doctoral degree in Chemical Engineering. He is a senior engineer, professor and tutor for MA candidates at Tsinghua University. He is also a member of the Eleventh, the Twelfth and the Thirteenth National Committee of the CPPCC.

Mr. Zhang Jinliang

Mr. Zhang Jinliang has become Executive Director of the Bank since August 2016, Deputy Secretary of CPC Committee of the Bank since January 2016, and President of the Bank since February 2016. He currently serves as Member of CPC Committee and Executive Director of China Everbright Group Limited. He was also Deputy General Manager of the Finance and Accounting Department of the Head Office, General Manager of the Financial Management Department of the Head Office, General Manager of the Beijing Municipal Branch, Vice President, and Director of IT Blueprint Implementation Office of Bank of China ("BOC"). He obtained his Doctoral degree in Economics from Xiamen University. He is a certified public accountant.

Mr. Cai Yunge

Mr. Cai Yunge has served as Director of the Bank since May 2017. He currently serves as Member of CPC Committee and Deputy General Manager of China Everbright Group Limited, Executive Director, Vice Chairman and General Manager of China Everbright Holdings Company limited, Executive Director and Chairman of the Board of Directors of China Everbright Limited, Executive Director and Chairman of the Board of Directors of China Everbright International Limited, and Vice President of Hong Kong Chinese Enterprises Association. He was Clerk of the Planning and Funding Department, Deputy Chief Clerk of the Credit Management Department, and Chief Clerk of the Banking Supervision Department II at the PBOC; Chief Clerk and Deputy Division Chief of the Supervision Department II, and Division Chief of the General Office of the CBRC; Member of CPC Committee and Deputy Director of Guangdong Provincial Development and Reform Commission; and General Manager of the General Office, Director of the CPC Committee Office, Member of CPC Committee (Executive Vice President Level) and Secretary to the Board of Directors of the Bank. He graduated from the Research Institute of Finance of the PBOC. He holds a Doctoral degree and he is a senior economist.

Mr. Ma Teng

Mr. Ma Teng has been Executive Director of the Bank since March 2015, Deputy Secretary of CPC Committee of the Bank since December 2014, and Member of CPC Committee and Executive Vice President of the Bank since December 2010. He concurrently serves as Chairman of the Board of Directors of CEB International Investment Corporation Limited and Chairman of the Board of Directors of China Everbright Bank (Europe) S.A.. He used to work as Deputy Director of the General Office of the Head Office, Secretary of CPC Committee and General Manager of Wuhan Municipal Branch, Secretary of CPC Committee and General Manager of Hebei Provincial Branch, Secretary of CPC Committee and General Manager of Peony Card Center, and General Manager of the Bank Card Business Department of the Head Office of ICBC; Deputy Secretary of CPC Committee, Director and CEO of China Bohai Bank; Member of CPC Committee of China Everbright Industrial (Group) Co., Ltd.; and General Manager of the Financial Management Department of China Everbright (Group) Corporation. He graduated from Dongbei University of Finance and Economics with a Bachelor's degree in Economics and a Doctorate degree in Political Economics from Zhongnan University of Economics and Law. He holds a certificate of senior economist.

Ms. Li Jie

Ms. Li Jie has served as Executive Director of the Bank since September 2016, Member of CPC Committee of the Bank since January 2003, Executive Vice President of the Bank since August 2003. She also concurrently serves as Director of China UnionPay Co., Ltd., Director of Sun Life Everbright Life Insurance Co., Ltd. and Director of Everbright Jin'ou Asset Management Limited. She joined the Bank in 2001 and successively served as the General Manager of the Finance and Accounting Department, and the Planning and Finance Department of the Bank. She was Deputy Chief of the Planning Division, Chief of the Finance and Accounting Division and Deputy General Manager of Jinan Branch, and Deputy General Manager and General Manager of Zhuhai Branch of Bank of Communication. She is a graduate of the Open University of China of Finance, and is an accountant.

Mr. Zhang Shude

Mr. Zhang Shude has served as Director of the Bank since September 2016. Mr. Zhang currently works at Central Huijin Investment Ltd. ("CHI"), and concurrently serves as Director of China Everbright Group Limited and Director of China Development Bank Securities Co., Ltd. He was Research Analyst and Deputy Director of Shanghai Institute of Finance of the PBOC; Deputy Manager of the Marketing Department of Shanghai Foreign Exchange Transaction Center, Head of the General Affairs Department of China Foreign Exchange Trading Center; Senior Director of Shanghai Branch of Bank of East Asia, Deputy General Manager of the International Business Department of Shanghai City Cooperative Bank; General Manager of the International Business Department; Secretary to the Board of Directors and Senior Director of the Office of the Board of Directors of Bank of Shanghai; and Director dispatched by CHI. (to China Development Bank Corporation). He graduated from the postgraduate program in Fudan University, majoring in Law. He holds a Bachelor's degree.

Mr. Li Huaqiang

Mr. Li Huaqiang has served as Director of the Bank since September 2016. Mr. Li currently works at CHI. and serves as Director of China Everbright Group Limited. He served successively as an Engineer of Zhuzhou Smelter Factory of China National Nonferrous Metals Industry Corporation, Deputy Secretary of the Communist Youth League Committee of the Main Plant, Deputy Director of the Second Plant and General Manager of the joint venture in Shenzhen; Assistant General Manager and Department Director of Shenzhen Science and Industry Park Corporation Joint Venture Shenzhen (Moscow); Deputy General Manager of the Investment Banking Department of Guosen Securities Company Limited; Chairman of the Board of Directors, Secretary of CPC Committee and President of Founder Securities Limited; Vice President of Huaxi Securities Company Limited and President and Deputy CPC Committee Secretary of China Lion Securities Company Limited; Designated Director of CHI (serving at China Investment Securities Company Limited); Vice Chairman of the Board of Directors of China Securities Co., Ltd.; Chief Head of the First Division of Equity Management of Securities Institutions of Securities Institution Management Department/Insurance Institution Management Department of CHI. He holds a Master's degree of EMBA from Peking University.

Mr. Fu Dong

Mr. Fu Dong has served as Director of the Bank since March 2018. Mr. Fu is currently employed by CHI while serving as Director of both China Everbright Group Limited and China Everbright Industrial (Group) Company Ltd. He ever served successively as a clerk in Science Education Section, a senior clerk and a principal clerk of Science Section in Cultural, Educational and Administrative Department, Deputy Director and Director of Cultural Section, Director of Administrative and Financial Section in Cultural, Educational, Administrative and Financial Department, Director of Integrated Section in Public Expenditure Department, Director and Assistant Counsel of General Affairs Section in Educational, Science and Cultural Department of the Ministry of Finance, Chief Editor, Secretary of CPC Committee, President and Senior Editor at China State Finance Magazine, Counsel of Department of Treaty and Law at the Ministry of Finance. He graduated from Central University of Finance and Economics in the Finance Faculty with a Bachelor's degree. He also receives Special Government Allowances of the State Council.

Mr. Zhao Wei

Mr. Zhao Wei has served as Director of the Bank since February 2015. He is currently the Assistant President of China Reinsurance (Group) Co., Ltd., Secretary of CPC Committee and Vice Chairman of the Board of Directors of China Re Asset Management Co., Ltd., Chairman of the Board of Directors of China Re Asset Management (Hong Kong) Co., Ltd., Chairman of China Re Capital Co., Ltd., Director of Beijing Jingneng Clear Energy Co., Limited, and Council Member of Asia Reinsurance Corporation. He successively served as General Manager of China Life Insurance (Hong Kong) Asset Management Co., Ltd., President of China Life Franklin Asset Management Co., Limited, Vice President of New China Asset Management Co., Ltd., and Deputy CPC Committee Secretary of China Re Asset Management Co., Ltd. He graduated from the Research Institute for Fiscal Science of the Ministry of Finance with a Doctoral degree in Economics.

Mr. Qiao Zhimin

Mr. Qiao Zhimin has served as Independent Non-Executive Director of the Bank since January 2013. He is concurrently Independent Director of Wuhan Rural Commercial Bank Co., Ltd. He successively served as Deputy Division Director of the Finance and Accounting Department of the Head Office, Deputy General Manager of Luxemburg Branch and Deputy General Manager of the General Planning Department of Head Office of BOC; Deputy Director-General of the Accounting Department and Deputy Director-General of the First Banking Supervision Department of PBOC; Chief of Regulation Team (Director-General Level) for ICBC; Director of the Finance and Accounting Department of the CBRC; and Vice Chairman of the Fourth Session of the Board of Supervisors and Chairman of the Fifth Session of the Board of Supervisors for China Minsheng Banking Corp., Ltd. He graduated from Hunan College of Finance and Economics and majored in Finance. He holds a Master's degree and a certificate of senior accountant.

Mr. Xie Rong

Mr. Xie Rong has served as Independent Non-Executive Director of the Bank since January 2013. He is a professor of Shanghai National Accounting Institute andconcurrently serves as Director of Shanghai Automotive Industry Corporation and Shanghai Electric (Group) Corporation, and Independent Director of Shenwan Hongyuan Group Co., Ltd.,China Traditional Chinese Medicine Co., Ltd, Shanghai Bairun Investment Holding Group Co., Ltd and Shanghai International Trust Corp. Ltd. He served as Associate Professor, Professor, Doctorial Tutor and Deputy Head of the Accounting Institute of Shanghai University of Finance and Economics(during that period, Mr. Xie visited and conducted research at University of Warwick in the United Kingdom for one year), and became a partner of KPMG Huazhen and Deputy Dean of Shanghai National Accounting Institute. He also served as a part-time certified accountant of Da Hua Certified Public Accountants, Pricewaterhouse Da Hua Certified accountant and Independent Director of China CITIC Bank. He graduated from Shanghai University of Finance and Economics and majored in accounting. He holds a Doctoral degree in Economics and a senior non-practicing certified public accountant. He is a recipient of the "Special Government Allowance" by the State Council.

Ms. Fok Oi Ling Catherine

Ms. Fok Oi Ling Catherine has served as Independent Non-Executive Director of the Bank since January 2014. Currently, she is a consultant of Siya International Consultancy Service Co. Ltd., a senior member of the Hong Kong Institute of Directors, a voting member of the Hong Kong Professionals and Senior Executives Association and a member of its Finance and Economics Group and Economic Affairs Committee, and a member of the Hong Kong Women Professionals & Entrepreneurs Association. She served successively in the Hong Kong and Shanghai Banking Corporation Limited ("HSBC") as Manager of the International Trade Financing Division and the Commercial Credit Division, Regional Director of Industrial and Commercial Banking and Trade Finance, Head of the Risk Management Department of Retail Banking, and Regional Director of Retail Banking and Director of Wealth Management and Investment Products for the Retail Banking Business. She also served as Director of Business Integration of Asia-Pacific Region of HSBC, and a Marketing and Management Advisor to the Retail Banking Business of BOCC. She was Honorary Chairman of the Hong Kong Chamber of Commerce in China – Shanghai. She holds a Master's degree in Business Administration from the Chinese University of Hong Kong. She is an associate of the Hong Kong Institute of Bankers and a certified financial management planner.

Mr. Xu Hongcai

Mr. Xu Hongcai has served as Independent Non-Executive Director of the Bank since February 2015. He is currently Deputy Chief Economist of China Center for International Economic Exchanges, a researcher and a visiting scholar of the University of British Columbia, Canada. He successively served as Assistant Engineer of China National Petrochemical Corp., Clerk at the Financial Claims Office of the Head Office of the PBOC, Deputy General Manager at Shanghai Office of GF Securities, Vice President at Beijing Venture Capital Co., Ltd. and Professor of Capital University of Economics and Business. He graduated from Renmin University of China with a Master's degree in Philosophy, and then graduated from the Graduate School of Chinese Academy of Social Sciences with a Doctoral degree in Economics.

Mr. Feng Lun

Mr. Feng Lun has served as Independent Non-Executive Director of the Bank since February 2015. He is Executive Director of Beijing Sifang Yufeng Investment Co., Ltd., Chairman of Beijing Vantone Citylogic Investment Corp. He served as a lecturer of the Party School of the Central Committee of CPC, Deputy Department Director of the Research Institute of the State Economic System Reform Commission, Senior Vice President of the Research Center of the Hainan Reform and Development Research Institute and Director of China Minsheng Banking Corp., Ltd. He founded the Vantone Group in 1991. He obtained a Bachelor's degree in Economics from Northwest University, a Master's degree in Law from the Party School of the Central Committee of CPC, a Doctorate degree in Law from the Graduate School of Chinese Academy of Social Sciences and a Master of Public Policy (MPP) degree from Lee Kuan Yew School of Public Policy at the National University of Singapore.

Mr. Wang Liguo

Mr. Wang Liguo has served as Independent Non-Executive Director of the Bank since January 2017. He currently works as Professor (National Second Class) of the Dongbei University of Finance and Economics, a Doctoral Tutor, Chief Expert of Major Bidding Projects of the National Social Science Fund, Director of China Investment Association, Executive Director of Construction Economics Branch of China Construction Industry Association, Vice Chairman of Dalian Engineering Consulting Association and Chairman of Dalian Yadong Investment Consulting Co., Ltd. He has served as Lecturer and Associate Professor of Dongbei University of Finance and Economics, Dean of the School of Investment Engineering Management of Dongbei University of Finance and Economics, and a member of the Evaluation Committee of Higher Education Engineering Management of the Ministry of Housing and Urban-Rural Development. He graduated from Dongbei University of Finance and Economics with a Bachelor's degree and a Master's degree in Economics and then a Doctorate degree in Industrial Economics.He graduated from Dongbei University of Finance and Economics, and successively obtained a Bachelor's degree and a master's in Economics, and a doctoral degree in industrial economics.

ii. Supervisors

Mr. Li Xin

Mr. Li Xin has served as Supervisor of the Bank since May 2015, and became Chairman of the Board of Supervisors of the Bank in June 2015. He successively served as an Assistant Engineer of Beijing 304 Research Institute of the Ministry of Aviation Industry, Secretary of the General Office of the Ministry of Aviation Industry, Secretary, Secretary (Deputy Division Chief Level), Secretary (Division Chief Level) and Deputy Director of the Secretariat of the General Office of the Ministry of Finance, Head of Division 1 of Economic Affairs Department of Xinhua News Agency Hong Kong Branch, Deputy Managing Director of Good Ocean Development Limited in Hong Kong, Deputy Director of the General Office and Head of Finance Division of Commission of Science, Technology and Industry for National Defense, Director of Human Resources Department, Chief of Organization Department of the CPC Committee and Senior Managing Director of China Investment Corporation, and concurrently served as Employee Representative Director of China Investment Corporation, Deputy Secretary of CPC Working Committee of China Investment Corporation, and Vice Chairman of the Working Committee of the Labour Union of China Investment Corporation. He graduated from Shenyang Aviation Industrial College with a Bachelor's degree in Aviation Machinery Processing Technology.

Mr. Yin Lianchen

Mr. Yin Lianchen has served as Supervisor of the Bank since December 2014. He is currently Managing Director and Chief Investment Officer of China Everbright Limited and Non-Executive Director of Everbright Securities Co., Ltd. He successively served as General Manager of the Corporate Administration Department, Director of the Securities Brokerage Department and Director of the Corporate Communications Department of China Everbright Limited, Chief Representative of China Desk of Moody's KMV, Deputy General Manager of Beijing Yonder Investment Group, Division Chief in the Executive Office of China Everbright (Group) Corporation and Assistant General Manager of China Everbright Limited. He graduated from Nankai University with a Master's degree in Western Financial Accounting.

Mr. Wu Junhao

Mr. Wu Junhao has served as Supervisor of the Bank since November 2009. He is Manager of the Financial Management Department of Shenergy Group Limited and concurrently serves as Director of Orient Securities Co., Ltd. and China Pacific Insurance (Group) Co., Ltd. He was Executive Deputy General Manager of Shanghai New Resources Investment Consulting Company, Deputy General Manager of Shanghai Bailitong Investment Company, Deputy Director of Shanghai Shenergy Asset Management Co., Ltd., and Deputy Director, Director and Senior Director of the Asset Management Department and Deputy (Acting) Director of the Financial Management Department of Shenergy (Group) Co., Ltd. He graduated from East China Normal University and later obtained a Master's degree in Enterprise Management at East China Normal University.

Mr. Yu Erniu

Mr. Yu Erniu has served as External Supervisor of the Bank since November 2012. He was a staff member, Deputy Director-General and Director-General of the Department of Personnel and Education of the Ministry of Finance. Mr. Yu was appointed as Designated Director of CHI to BOC, a member of the Board of Directors, Director of the Human Resources Department, Chief of the Organization Department of the CPC Committee and Chairman of the Labor Union of China Investment Corporation, and Director of the Bank. He is a graduate of Economic Management studies from the PLA Air Force Political College majoring in Economic Management. He also obtained a Master's degree in Economic Laws from Capital University of Economics and Business.

Mr. Wu Gaolian

Mr. Wu Gaolian has served as External Supervisor of the Bank since June 2016. He successively served as a committee member of County Committee, Deputy County Magistrate and Deputy Managing Magistrate of Fusong County, Jilin, General Manager of Tonghua Branch, Jilin, Deputy General Manager of Jilin Branch, General Manager of Guangxi Branch and General Manager of Liaoning Branch of the People's Insurance Company (the People's Insurance (Property) Company of China, Ltd.), Vice President of the People's Insurance Company (Group) of China (People's Insurance Company of China Holdings Company), Director and President of China Reinsurance (Group) Corporation, Director of the Bank, and Director of China Everbright Group Limited. He graduated from the Graduate School of Chinese Academy of Social Sciences with Monetary and Banking major. He holds a Master's degree and is a senior economist.

Mr. Wang Zhe

Mr. Wang Zhe has served as External Supervisor of the Bank since November 2016. He is currently Secretary-General of Association of Shanghai Internet Financial Industry and serves concurrently as Vice President of Shanghai Financial Association, Independent Director of Shanghai Pudong Development Bank, and Non-Executive Director of Boill Healthcare Holdings Limited. He successively served as a staff member of Monetary Division and Deputy Division Chief of General Office of the PBOC, Manager of China Gold Coin Shenzhen Commercial Center, Vice General Manager of Shenzhen Branch of China CITIC Bank, General Manager of China Gold Coin Shenzhen Commercial Center, Deputy General Manager of China Gold Coin Incorporation, General Manager, Chairman and Party Secretary of Shanghai Gold Exchange, and CPC Committee Secretary of China Foreign Exchange Trade System. He graduated from Southwestern University of Finance and Economics majoring in Business Administration and holds a Master's degree.

Mr. Sun Xinhong

Mr. Sun Xinhong has served as Employee Supervisor of the Bank since June 2017. He is currently General Manager of the Finance and Accounting Department of the Bank. He successively served as Clerk of the Finance and Accounting Department, Section Chief, Deputy Division Chief and Division Chief of the Funding Division of the Financial Management Department, Assistant General Manager and Deputy General Manager of the Financial Management Department, and member of the Party Discipline Committee of the Headquarters of China Everbright (Group) Corporation and Deputy General Manager of the Financial Management Department and Employee Supervisor of China Everbright Group Limited. He graduated from the School of Economics and Management of Tsinghua University. He holds a Bachelor's degree and a certificate of senior accountant.

Mr. Jiang Ou

Mr. Jiang Ou has served as Employee Supervisor of the Bank since June 2017. He is currently Deputy Director of the Office of Board of Supervisors of the Bank (Deputy General Manager Level). He successively served as Clerk of the Research Institute and Deputy Director of the Comprehensive Management Office of Beijing Combustion Engine General Factory, Clerk, Deputy Section Chief and Section Chief of the Examination and Recruitment Division of the Ministry of Personnel, Director (Deputy Division Chief Level) of the Career Service Management Center and Director (Deputy Division Chief Level) of the Job Introduction Service Center of Hainan Yangpu Economic Development Zone, Deputy Division Chief and Division Chief of the Personnel Division, Assistant General Manager and Deputy General Manager of the Human Resources Department of the Bank, Deputy Director of the Office of the Performance Management Committee of the Bank, Deputy Head of the Preparatory Group of Wuxi Branch (Deputy General Manager Level) of the Bank, and Member of CPC Committee, Secretary of Discipline Committee and Deputy General Manager of Wuxi Branch of the Bank. He graduated from the College of Automotive Engineering of Jilin Universityand holds a Master's degree.

Ms. Huang Dan

Ms. Huang Dan has served as Employee Supervisor of the Bank since June 2017. She is currently Deputy General Manager of the Card Center of the Bank. She successively served as Clerk of Gaoxian Sub-branch of PBOC, Deputy Manager of the Card Issue Management Division of the Private Banking Department, Deputy General Manager (Acting) and General Manager (Senior Manager Level) of the Business Department of Credit Card Center, Head of the Planning and Marketing Department of Credit Card Center, and Assistant General Manager of Credit Card Center of the Bank. She graduated from Beihang University with a Master's Degree. She holds a certificate of economist.

iii. Senior Management

Mr. Zhang Jinliang

Mr. Zhang Jinliang Please refer to the section "Directors".

Mr. Ma Teng

Mr. Ma Teng Please refer to the section "Directors".

Ms. Li Jie

Ms. Li Jie Please refer to the section "Directors".

Mr. Zhang Huayu

Mr. Zhang Huayu has served as Member of CPC Committee of the Bank since February 2006, and Executive Vice President of the Bank since March 2007. He has concurrently served as Chairman of Everbright Financial Leasing Co., Ltd. since July 2014 and Executive Director of Everbright Technology Co., Ltd. since December 2016. He joined the Bank in February 2001 and successively served as Assistant President of the Bank and General Manager of the Banking Department of the Head Office. He used to work as Director of the Urban Credit Union in Shangqiu region, General Manager of Xiayi County Sub-Branch in Shangqiu region, Director of the General Office of Shangqiu Regional Branch in Henan Province of PBOC, Division Chief for Credit Management Division of the Credit Approval Department of Zhengzhou Branch, Deputy General Manager and General Manager of Xi'an Branch of Bank of Communication. He graduated from Hunan College of Finance and Economics and holds a Master's degree in Economic Management of University of International Business and Economics. He holds a certificate of senior economist.

Mr. Lu Hong

Mr. Lu Hong has served as Member of CPC Committee of the Bank since March 2009 and Executive Vice President of the Bank since December 2010. He joined the Bank in 1994 and successively served at various positions of the Bank, including Manager of the Securities Department, Division Chief in the Office of the Board of Directors, Assistant General Manager of the Planning and Treasury Department, General Manager of the Planning and Finance Department of Beijing Branch of the Bank, Deputy General Manager of the Finance and Accounting Department, Deputy General Manager and General Manager of the Planning and Finance Department and Secretary of the Board of Directors. He was an engineer in the Planning Institute of the Ministry of Railways and Manager in the Investment Banking Department of Huaxia Securities Co., Ltd. He graduated from Shanghai Railway Institute and holds a Master's degree in Railway Engineering and a Doctoral degree in Applied Economics of Xi'an Jiaotong University. He holds a certificate of senior economist.

Mr. Wu Jian

Mr. Wu Jian has served as Member of CPC Committee of the Bank since January 2014 and Executive Vice President of the Bank since December 2014. From September 2016, he concurrently served as Secretary of CPC Committee and General Manager (since October 2016) of Beijing Branch of the Bank. He joined the Bank in December 1997 and successively served as Deputy General Manager (Acting) of the Market Development Department of the Head Office, General Manager of the Credit Card Business Department, Deputy General Manager of Nanjing Branch, General Manager of the Retail Banking Department, General Manager of the R&D Department, General Manager of the Strategic Management Department, General Manager of Shenyang Branch, General Manager of the SME Business Department, General Manager of the Human Resources Department and Secretary of Discipline Committee (Executive Vice President Level). He used to work as Deputy Head (Deputy Division Chief Level) and Director (Division Chief Level) of Economic Research Team of the Research Division of General Office of the NPC Standing Committee, Division Chief of Foreign Capital Management Center of the State Council Poverty Alleviation Office, Division Chief of Comprehensive Analysis Division of Balance of Payments Department of SAFE. Mr. Wu graduated from Renmin University of China with a Master's degree in Economics. He holds a certificate of senior economist.

Mr. Yao Zhongyou

Mr. Yao Zhongyou has served as Member of CPC Committee of the Bank since May 2014 and Executive Vice President of the Bank since August 2014. He used to work as Clerk and Deputy Manager of the International Banking Department of Hebei Provincial Branch, General Manager and Secretary of CPC Committee of Chengde Branch, Director of the General Office, Deputy General Manager and a Member of CPC Committee of Hebei Provincial Branch of China Construction Bank ("CCB"), Deputy General Manager of the Equity Management Department of China Everbright (Group) Corporation, Executive Director, a member of CPC Committee and Vice President of Everbright Financial Holding Asset Management Co., Ltd. as well as General Manager of the Financial Management Department of China Everbright (Group) Corporation. He graduated from Wuhan University and holds a Master's degree. He holds a certificate of senior economist.

Mr. Huang Haiqing

Mr. Huang Haiqing has served as Member of CPC Committee and Secretary of Discipline Committee (Executive Vice President Level) of the Bank since June 2016. He successively served as Deputy Chief of Jiangxi Province Yichun Area Hardware, Electric Material and Chemical Equipment Company, Director of the Xinhua North Office of Haikou branch, Deputy Division Chief of the Deposits Department and Deputy Director (Division Chief Level) of the General Office of Hainan Provincial Branch of ICBC, Senior Manager of the General Management Department, Director of the CPC Committee Office and Head of Organization Department of the CPC Committee of the Haikou Office of China Huarong Asset Management Co., Ltd, Deputy General Manager of the Banking Department of the Head Office and Deputy General Manager of Pudong Branch of Bank of Shanghai, and Assistant Mayor, Vice Mayor and member of the CPC Committee of Xi'an City. He graduated from Southwest University of Finance and Economics. He holds a Doctoral degree in Economics and a certificate of senior economist.

Mr. Sun Qiang

Mr. Sun Qiang has served as Member of CPC Committee of the Bank since August 2016 and Executive Vice President of the Bank since March 2018. After joining the Bank since 1997, he successively served as Deputy General Manager of Zhuhai Sub-branch of Guangzhou branch, General Manager of Shantou Sub-branch, Assistant General Manager of the Inspection and Security Department of the Head Office, Assistant General Manager and Deputy General Manager of the Corporate Banking Department, Deputy General Manager (Acting) and General Manager of the Financial Institutions Department, and General Manager of the Corporate Banking Department, Assistant President of the Bank. He used to work in the Survey and Statistics Department and the General Office of the PBOC, Head Office of SAFE, and the PBOC Shantou Office in Guangdong Province. He graduated from Peking University with a Bachelor's degree in Probability Statistics and afterwards acquired a Master's degree in Money and Banking from the School of Finance, Renmin University of China.

Mr. Li Jiayan

Mr. Li Jiayan has served as Secretary to the Board of Directors of the Bank since January 2018 and concurrently served as General Manager and Representative of Securities Affairs of the Capital and Securities Affair Management Department of the Bank. He joined the Bank in November 2005. He successively served as Deputy General Manager of the Development Research Department, Deputy General Manager of the Strategic Management Department, Deputy Chief of the Office of the Board of Directors and Supervisors (Deputy General Manager Level), Deputy Chief (Head of the Listing Office) of the Office of the Board of Directors (the Listing Office), Representative of Securities Affairs (General Manager Level), and General Manager of the Capital and Securities Affairs Management Department. He used to work as Deputy Chief of the Project Approval Division of the Foreign Investment Office, Director of the Foreign Investors' Complaints Center, Chief of the Coordination and Management Division of the Foreign Investment Office, and Executive Deputy General Manager of Wuhan PKF International Investment Co., Ltd. Of Wuhan Municipal Government. He graduated from School of Law, Wuhan University with a Bachelor's degree and a Master's degree in Law. Then he went to the University of California, Berkeley, School of Law for further study, where he obtained a Master's degree and a Doctorate degree in Law.

VIII. Directors' and Supervisors' Interests in Competing Business

None of the Directors and Supervisors of the Bank had interests in any business that competes or is likely to compete, either directly or indirectly, with the business of the Bank.

IX. Financial, Business and Kinship Relationships among Members of the Board of Directors

Saved as disclosed in this report, there is no financial, business, kinship relationships or other material relationships among the members of the Board of Directors.

X. Directors' and Supervisors' Interests in Contracts and Service Contracts

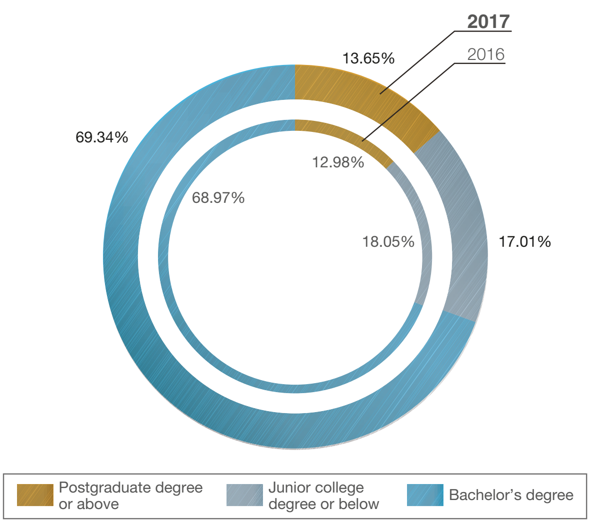
None of the Directors or Supervisors of the Bank or connected parties had any material interest in any material transaction, arrangements or contracts to which the Bank or any of its subsidiaries was a party during the reporting period. None of the Directors or Supervisors of the Bank entered into any service contract, pursuant to which the Bank shall compensate to Director or Supervisor if the contract for each year is terminated for the Bank's reason (excluding statutory compensation).

XI. Employees

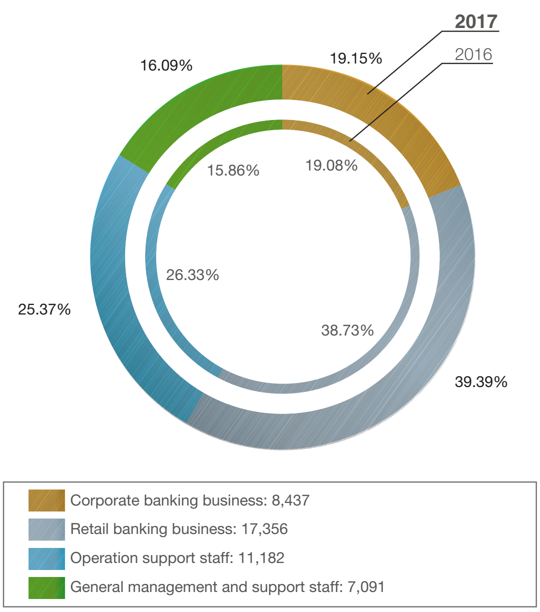
i. Overview

At the end of the reporting period, the Bank had 44,066 employees (exclusive of those of subsidiaries) and 842 retired employees. In terms of educational background, 7,494 incumbent employees hold a junior college degree or below, accounting for 17.01% of the total employees, 30,555 incumbent employees hold a bachelor's degree, accounting for 69.34%, and 6,017 incumbent employees hold a postgraduate degree or above, accounting for 13.65%. In terms of profession, there were 8,437 employees in the corporate banking business, accounting for 19.15%, 17,356 employees in the retail banking business (including the credit card business and e-banking business), accounting for 39.39%; 11,182 operation support employees (including tellers), accounting for 25.37% and 7,091 general management and support employees, accounting for 16.09%.

The educational background structure of employees of the Bank



The profession structure of employees of the Bank



ii. Remuneration Policies for Employees

In response to market competition, the Bank's remuneration policies follows the principles of "efficiency and fairness". The remuneration of employees is comprised of three components, namely basic salary, performance-based salary and fringe benefits. The Bank gives preferential treatment to the frontline employees and profit centers to attract and motivate key and core personnel.

iii. Training Plans

In order to highlight the requirements for strategic transformation, promote performance improvement and business development, the Bank established a Matrix training system by closely linking its strategic mechanism and performance-based target. Taking the post-required competence as the core mission, the Bank innovated training modes, enriched training connotation, managed training programs and formed a matrix training system covering various types of employees at different levels. The vertical lines helped senior management to promote the leadership, middle management helped enhance their duty fulfillment capability and helped new recruits grasp basic skills, whereas the horizontal lines aimed to promote different business lines and positions, and carried out technical training for better business performance. In 2017, the Bank organized 5,996 training courses and sessions of all sorts, with a participation of total 342,379 person-times.

iv. Employees of Main Subsidiaries at the End of the Reporting Period

1. Everbright Financial Leasing Co., Ltd. had 119 formal employees, including 25 administrative staff, 55 business staff and 39 supporting staff, with 95% of them holding a Bachelor's degree or above.

2. Shaoshan Everbright Village Bank Co., Ltd. had 29 formal employees, including 7 administrative staff, 8 business staff and 14 supporting members, with 70% of them holding a Bachelor's degree or above.

3. Jiangsu Huai'an Everbright Village Bank Co., Ltd. had 42 formal employees, including 12 administrative staff, 20 business staff and 10 supporting staff, with 70.37% of them holding a Bachelor's degree or above.

4. CEB International Investment Corporation Limited had 64 formal employees, including 4 administrative staff, 25 business staff and 35 supporting staff, with 95% of them holding a Bachelor's degree or above.

5. China Everbright Bank (Europe) S.A. had 18 formal employees, including 8 administrative staff, 6 business staff and 4 supporting staff, with 100% of them holding a Bachelor's degree or above.

XII. Institutions

During the reporting period, one tier-1 branch (Lhasa Branch), 13 tier-2 branches (Zigong Branch, Ji'ning Branch, Chuzhou Branch, Taizhou Branch, Zhangjiakou Branch, Shangrao Branch, Jingzhou Branch, Songyuan Branch, Xianyang Branch, Benxi Branch, Yongzhou Branch, Suzhou Branch and Qinzhou Branch), and 63 banking outlets were open for business. As at the end of the reporting period, the Bank had 1,196 branches and outlets in mainland China, including 39 tier-1 branches, 89 tier-2 branches and 1,068 outlets (including sub-branches in different cities, county-level sub-branches, intra-city sub-branches and banking departments of branches). The outlets of the Bank in mainland China managed to cover all provincial administrative regions and extended their business reach to 129 economic center cities across the country. In the meantime, the Bank accelerate the pace of setting up overseas institutions. Luxembourg Branch officially commenced operation. Application for establishing Sydney Branch was filed with the related authorities. As at the end of the reporting period, the Bank had three overseas branches in Hong Kong, Seoul and Luxembourg.

Details of the Bank's employees and business outlets are as follows:

Name of Branch	Number of outlets	Number of employees	Total assets (RMB million)	Address
Head Office	1	6,435	2,786,571	China Everbright Center, No. 25, Taipingqiao Avenue, Xicheng District, Beijing
Beijing Branch	68	2,808	469,374	No. 1, Xuanwumen Nei Avenue, Xicheng District, Beijing
Shanghai Branch	56	1,815	225,875	No. 1118, Pudong Avenue, Pudong New District, Shanghai
Tianjin Branch	34	1,077	75,083	Annex Building of Zhonglian Building, No. 83, Qufu Avenue, Heping District, Tianjin
Chongqing Branch	27	968	78,455	No. 168, Minzu Avenue, Yuzhong District, Chongqing
Shijiazhuang Branch	52	1,330	94,232	No. 56, Yuhua East Avenue, Qiaodong District, Shijiazhuang
Taiyuan Branch	33	1,065	74,564	No. 295, Yingze Street, Taiyuan
Huhhot Branch	18	579	37,226	Tower D, Dongfangjunzuo, Chilechuan Avenue, Saihan District, Huhhot
Dalian Branch	24	710	33,899	No. 4, Wuwu Avenue, Zhongshan District, Dalian
Shenyang Branch	36	1,182	66,189	No. 156, Hepingbei Avenue, Heping District, Shenyang
Changchun Branch	35	891	50,336	No. 2677, Jiefang Avenue, Changchun
Heilongjiang Branch	37	1,065	40,080	No. 278, Dongdazhi Avenue, Nangang District, Harbin
Nanjing Branch	44	1,377	182,844	No. 120, Hanzhong Avenue, Nanjing
Suzhou Branch	20	883	72,219	No. 188, Xinghai Avenue, Industrial Park District, Suzhou
Wuxi Branch	8	321	60,556	No. 1, Renmin Middle Avenue, Wuxi
Hangzhou Branch	36	1,254	107,233	Zheshang Times Building, No. 1, Miduqiao Avenue, Gongshu District, Hangzhou
Ningbo Branch	19	756	54,946	No. 1 Building, Hengfu Plaza, No. 828, Fuming Avenue, Jiangdong District, Ningbo
Hefei Branch	49	1,388	119,458	No. 200, Changjiang West Avenue, Hefei
Fuzhou Branch	38	1,295	64,094	No. 148, Beihuan Middle Avenue Gulou District, Fuzhou
Xiamen Branch	16	524	65,917	China Everbright Bank Building, No. 81, Hubin South Avenue, FXiman
Nanchang Branch	23	692	53,525	No. 399, Guangchang South Avenue, Nanchang
Ji'nan Branch	32	926	56,759	No. 85, Jingqi Avenue, Ji'nan
Qingdao Branch	34	1,046	81,657	No. 69, Hong Kong West Avenue, Qingdao
Yantai Branch	14	487	33,420	No. 111, South Avenue, Yantai
Zhengzhou Branch	46	1,384	86,510	No. 18, Nongye Road, Zhengzhou
Wuhan Branch	34	1,062	66,936	No. 143-144, Yanjiang Avenue, Jiangan District, Wuhan

Directors, Supervisors, Senior Management, Staff, Branches and Outlets

Name of Branch	Number of outlets	Number of employees	Total assets (RMB million)	Address
Changsha Branch	57	1,410	96,186	No. 142, Section 3 of Furong Middle Avenue, Tianxin District, Changsha
Guangzhou Branch	84	2,391	154,951	No. 685, Tianhe North Avenue, Guangzhou
Shenzhen Branch	50	1,225	200,979	No. 18, Intersection of Zizhu Seven Street and Zhuzilin Four Avenue, Shenzhen
Nanning Branch	27	851	50,794	Oriental Manhattan Plaza, No. 52-1, Jinhu Avenue, Nanning
Haikou Branch	21	785	46,102	Ground Floor, World Trade Center D/E, Shimao East Avenue, Jinmao District, Haikou
Chengdu Branch	27	916	69,320	No. 79, Dacisi Road, Jinjiang Avenue, Chengdu
Kunming Branch	23	737	36,560	No. 28, Renmin Middle Avenue, Kunming
Xi'an Branch	37	1,112	68,812	No. 33, Hongguang Avenue, Xi'an
Urumqi Branch	7	191	10,921	No. 165, Nanhu East Avenue, Urumqi
Guiyang Branch	10	364	24,028	West Tower III, Guiyang International Financial Center at the corner on the east of Changling North Road and north of the Lincheng East Avenue, Guanshanhu District, Guiyang
Lanzhou Branch	12	309	15,360	No. 555, Donggang West Avenue, Chengguan District, Lanzhou
Yinchuan Branch	4	136	4,363	No. 219, Jiefang West Avenue, Xingqing District, Yinchuan
Xining Branch	2	75	2,877	No. 57-7, Wusi West Avenue, Chengxi District, Xining
Lhasa Branch	2	43	220	1-1-1, Taihe International Culture Square, No. 7 Jinzhhu Middle Avenue, Chengguan District, Lhasa
Hong Kong Branch	1	145	102,632	30/F., Far East Finance Center, No. 16, Harcourt Road, Hong Kong
Seoul Branch	1	29	10,621	23/F, Wing Fung Building, 41 Cheonggyecheon Avenue, Jongno gu, Seoul, Korea
Luxembourg Branch	1	27	3,126	No.10, Avenue Emile Reuter, Luxembourg City, Luxembourg
Adjustment on consolidation			(2,006,618)	
Total	1,200	44,066	4,029,192	

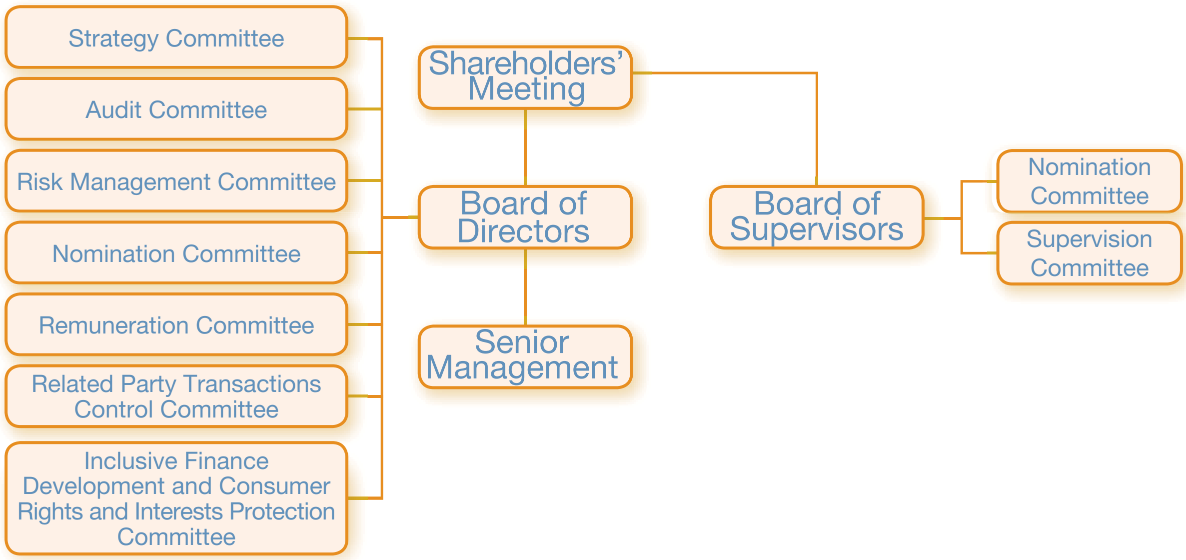
Note:

1. The employees of the Head Office of the Bank included 2,914 staff in the Credit Card Center and 1,870 staff in the Remote Banking Center.

2. The number of outlets, employees and the total assets in the above table excluded those of the subsidiaries of the Bank.

Corporate Governance

I. Corporate Governance Structure



II. Overview

Aiming at the best practice of corporate governance in the capital market, the Bank has established a sound corporate governance framework and system meeting the requirements on modern corporate system, leading to steady improvement in corporate governance of the Bank. In 2017, the Bank strictly complied with the *Company Law*, the *Securities Law*, the *Law on Commercial Banks*, the *Code of the Corporate Governance for Listed Companies*, the *Guidance on the Corporate Governance of Commercial Banks*, the *Guidelines for the Due Diligence Performance of the Board of Directors of Commercial Banks*, the *Guidelines for the Board of Supervisors of Commercial Banks*, the Hong Kong Listing Rules and other requirements. The Bank's corporate governance had no major deviation from normative documents regulating the corporate governance of listed companies issued by the China Securities Regulatory Committee (CSRC).

The Board of Directors of the Bank performed the duties as set out in Rule D.3.1 of Appendix 14 of the Hong Kong Listing Rules including reviewing the Bank's corporate governance policies and practices, the training and continuous professional development of the director and the senior management, the Bank's policies and practices in respect of observance of law and regulatory requirements, the Bank's compliance with the *Model Code* and the compliance manual for employees, the Bank's compliance with the provisions of Appendix 14 of the Hong Kong Listing Rules and the content disclosed in the section headed "Corporate Governance" in this Annual Report.

During the reporting period, the Board of Directors revised the *Articles of Association* of the Bank twice based on its actual conditions, clarifying the statutory status of the CPC Committee in corporate governance and the general requirements for CPC party building work, to continuously deepen corporate governance reforms. In order to respond positively to the State's requirements for vigorous development of inclusive finance and the promotion of inclusive financial service capabilities, and to further strengthen the strategic guidance for the protection of consumer rights of the Bank, the Board of Directors started with the top-level design and added "Inclusive Finance Development and Consumer Rights and Interests Protection Committee" to its special committees. The Board formulated specific work rules, and made adjustments to the functions of the Strategy Committee so it could effectively fulfill its functions related to strategic planning and deliberation of basic management systems. The adjustment and optimization of the special committees reinforced the responsibilities of the Board of Directors and ensured the coordinated advancement of the overall work of the Bank.

During the reporting period, the Bank safeguarded the minority shareholders' rights of being well-informed, participation and decision-making through proper system and procedure arrangements. At the general meetings of shareholders, both on-site voting and online voting were adopted. When material matters concerning the interests of medium and small investors were involved, the votes made by medium and small investors were counted and disclosed separately. At general meeting of shareholders, the Bank appointed independent financial advisors for their professional opinions on the subscription for A shares convertible bonds and non-public issuance of H shares respectively, and on whether such transactions were well justified and in the interest of listed companies and shareholders as a whole, thereby effectively safeguarding the legal interest of small and medium shareholders. The Bank and its substantial shareholders were independent in terms of their business, personnel, asset, organization and financial affairs, ensuring the Bank's full autonomy in its operation.

The Board of Directors of the Bank has reviewed its work during the reporting period and solicited the opinions of the Senior Management during its reviewing process, who considered that the Board of Directors has effectively performed its duty and safeguard the rights and interest of the shareholders and the Bank.

III. Shareholders' Meetings

i. Convening of Shareholders' Meetings

During the reporting period, the Bank held one annual general meeting, two extraordinary general meetings, two A shareholders' class meetings, two H shareholders' class meetings, and one preference share class meeting, all in conformity with the procedures specified in the *Articles of Association of the Bank*.

On 28 February 2017, the Bank convened the 2017 First Extraordinary General Meeting, 2017 First A Shareholders' Class Meeting, 2017 First H Shareholders' Class Meeting and 2017 First Preference Share Class Meeting. The announcement on these meetings was published on the websites of the SSE, the HKEX and the Bank.

On 20 June 2017, the Bank convened the 2016 Annual General Meeting, 2017 Second A Shareholders' Class Meeting and 2017 Second H Shareholders' Class Meeting. The announcement on these meetings was published on the websites of the SSE, the HKEX and the Bank.

On 21 December 2017, the Bank convened the 2017 Second Extraordinary General Meeting. The announcement on this meeting was published on the websites of the SSE, the HKEX and the Bank.

ii. Implementation of the Resolutions of the General Meetings of Shareholders by the Board of Directors

During the reporting period, the Board of Directors of the Bank earnestly and fully implemented resolutions considered and approved at the general meetings of the Bank.

The Board of Directors of the Bank earnestly implemented the profit distribution plan for 2016, distributed dividends to shareholders in time, and safeguarded shareholders' interests properly. The profit distribution plan has been implemented in July 2017.

Upon consideration and approval at the 2016 Annual General Meeting, 2017 Second A Shareholders' Class Meeting and 2017 Second H Shareholders' Class Meeting, the Bank timely submitted to CBRC and CSRC on the proposal concerning the non-public issuance of H-shares. On 22 December 2017, the Bank completed non-public issuance of H-shares worth HKD30.957 billion.

The 2017 First and Second Extraordinary General Meeting respectively reviewed and approved proposal on revisions to the *Articles of Associations* of the Bank to include the CPC Party building work. The 2016 Annual General Meeting, the 2017 Second A Shareholders' Class Meeting and 2017 Second H Shareholders' Class Meeting approved the proposal on revisions to the *Articles of Associations* of the Bank for non-public issuance of H shares. The Bank submitted the revised the *Articles of Associations* to CBRC in time.

Upon consideration and approval of the resolution regarding the election of director of the Seventh Session of the Board of Directors at the 2017 Second Extraordinary General Meeting, the Bank timely submitted to CBRC and obtained its approval on the qualifications of new directors.

iii. Attendance of Directors at General Meetings

Name	Number of meetings	Attendance in person
Tang Shuangning	3	2
Gao Yunlong	3	2
Zhang Jinliang	3	3
Cai Yunge	2	2
Ma Teng	3	0
Li Jie	3	1
Zhang Shude	3	2
Li Huaqiang	3	3
Zhao Wei	3	0
Qiao Zhimin	3	3
Xie Rong	3	1
Fok Oi Ling Catherine	3	1
Xu Hongcai	3	2
Feng Lun	3	1
Wang Liguo	3	1

Notes:

1. In accordance with Rule A.6.7 of Appendix 14 of the Hong Kong Listing Rules, Independent Non-Executive Directors should attend general meetings of the Bank. Some Independent Non-Executive Directors of the Bank were unable to attend relevant general meetings in 2017 due to other official duties.

2. Mr. Cai Yunge started to perform his duty since his appointment qualification for Non-Executive Director was approved by CBRC on 9 May 2017.

IV. Directors and Board of Directors

i. Board Composition

As at the end of the reporting period, the Board of Directors consisted of 14 directors, including 3 executive directors (Mr. Zhang Jinliang, Mr. Ma Teng and Ms. Li Jie), 5 Non-Executive Directors (Mr. Gao Yunlong, Mr. Cai yunge, Mr. Zhang Shude, Mr. Li Huaqiang and Mr. Zhao Wei) and 6 Independent Non-Executive Directors (Mr. Qiao Zhimin, Mr. Xie Rong, Ms. Fok Oi Ling Catherine, Mr. Xu Hongcai, Mr. Feng Lun and Mr. Wang Liguo).

The Bank has paid special attention to the diversity of the members of the Board of Directors. In accordance with *the Policy on Membership Diversity of the Board of Directors of the Bank*, upon examining the Director candidates and submitting its recommendation to the Board of Directors, the Nomination Committee comprehensively evaluated the candidates' gender, age, cultural and educational background, professional experience, skills, knowledge, length of service, etc.. The Nomination Committee is also responsible for evaluating the structure, number of members and composition of the Board of Directors, and recommending to the Board on any adjustments that correspond with the strategy of the Bank. As at the end of the reporting period, out of the 14 directors of the Bank, 2 are female, 12 hold a postgraduate degree or above with 9 holding a doctoral degree. Engaged in the operational and managerial work in the commercial banking sector for an extensive period of time, the executive directors are highly experienced. The Non-Executive Directors have held key positions in their respective institutions and possess extensive managerial experience. The Independent Non-Executive Directors are experts in economy, finance, accounting, auditing and other aspects who can provide the Bank with professional advice in different areas.

For the details of the biographies of director, please refer to "Directors, Supervisors, Senior Management, Staff, Branches and Outlets".

ii. Duties and Powers of the Board of Directors

As the decision-making body of the Bank, the Board of Directors is responsible for convening the general meeting of shareholders, reporting to the general meeting of shareholders and implementing resolutions passed at the general meeting of shareholders. The Board of Directors shall also set out strategies, operation plans and investment plans and formulate various proposals on financial budget, final accounts, risk capital allocation, and profit distribution plan and appoint members of senior management. Please refer to the *Articles of Association* of the Bank for details.

iii. Board Meetings and Resolutions

During the reporting period, the Board of Directors held 11 meetings, including 6 on-site meetings and 5 meetings via written resolutions. The Board of Directors considered a total of 57 proposals and heard 17 reports, playing an effective role in scientific decision-making.

The Board of Directors of the Bank continuously strengthened the capital management system and replenished capital via various channels to consolidate the risk absorbing capacity as well as balance risk and development. It paid attention to operation transformation and business structure adjustment to actively serve the real economy. The Inclusive Finance Development and Consumer Rights and Interests Protection Committee was established with Inclusive Finance Department set under the management to improve the functional structure of the Board of Directors. The Board of Directors strengthened fairness review on major related party transactions and constantly improved the standard of refined management over related party transactions. It also performed information disclosure obligations prudently, and disclosed information in strict compliance with regulatory requirements to continuously enhance the management of information insider.

The announcements of resolutions of all Board Meetings of the Bank are published on the websites of the SSE, the HKEX and the Bank.

iv. Attendance Records of Directors at Board Meetings

Name	Number of Meetings	Attendance in Person	Attendance by Proxy	Absence
Tang Shuangning	11	10	0	1
Gao Yunlong	11	9	2	0
Zhang Jinliang	11	11	0	0
Cai Yunge	7	6	1	0
Ma Teng	11	11	0	0
Li Jie	11	10	1	0
Zhang Shude	11	11	0	0
Li Huaqiang	11	11	0	0
Zhao Wei	11	8	3	0
Qiao Zhimin	11	9	2	0
Xie Rong	11	11	0	0
Fok Oi Ling Catherine	11	11	0	0
Xu Hongcai	11	10	1	0
Feng Lun	11	6	5	0
Wang Liguo	11	11	0	0

Notes:

1. Mr. Cai Yunge started to perform his duty since his appointment qualification for Non-Executive Director was approved by CBRC on 9 May 2017.

2. Mr. Tang Shuangning resigned from the posts of Chairman and Non-Executive Director of the Bank on 27 December 2017.

v. Appointment, Re-election and Removal of Directors

In accordance with the *Articles of Association of the Bank*, directors shall be elected and replaced at the general meeting of shareholders, and the term of office for director (including Non-Executive Directors) is three years starting from the date when the appointment qualifications are approved by the CBRC. Directors can be re-elected and re-appointed when the term of office has expired and the term of office of the re-elected and re-appointed directors commences from the date when such re-election and re-appointments are approved at the general meeting of shareholders.

The term of office for the independent Non-Executive Directors is the same as that of other directors. The term of office for the independent Non-Executive Directors shall conform to applicable laws and provisions of regulatory authorities.

The *Articles of Association of the Bank* stipulates the procedures for appointing, re-electing and removing directors. The Nomination Committee of the Board of Directors preliminarily reviews the qualification and conditions of each director candidate and submits a proposal to the Board of Directors, which will consider and approve the proposal on the nomination of director candidates and further submit it for election at the general meeting.

vi. Board Statement on the Financial Statements

The senior management has provided sufficient explanation and information for the Board of Directors to make well-informed judgments in respect to the submitted financial statements and other data for approval. The directors of the Bank acknowledge that they are responsible to prepare the financial statements of the Bank which truly represent the operating results of the Bank for the year of 2017. To the best knowledge of the directors, there was no material uncertain event or condition that might have a material adverse effect on the continuing operation of the Bank.

V. The Chairman and the President

The roles and work of the Chairman of the Board and the President are performed by different individuals, and their respective responsibilities are clearly defined and divided, which is in compliance with the provisions of the Hong Kong Listing Rules. During the reporting period, Mr. Tang Shuangning, the Chairman of the Board of Directors of the Bank, was responsible for convening and presiding the meetings of the Board of Directors, ensuring that all directors attending the Board meeting were properly informed of the issues to be reviewed or reported, managing the operation of the Board of Directors, making sure that all key and relevant issues were discussed by the Board of Directors in a constructive and timely manner. On 27 December 2017, Mr. Tang Shuangning resigned from the post of Chairman of the Bank. On 16 March 2018, Mr. Li Xiaopeng started to serve as Chairman of the Bank as approved by CBRC. Mr. Zhang Jinliang is the President of the Bank and leads the operation and management of the Bank, the implementation of the Board resolutions and the execution of the Bank's strategies and business plans.

VI. Duty Performance of Independent Non-Executive Directors

i. Independence of the Independent Non-Executive Directors

The six independent Non-Executive Directors of the Bank are not involved in any factors influencing their independence mentioned in Rule 3.13 of the Hong Kong Listing Rules. The Bank has received the letter of annual confirmation about his or her independence issued from each Independent Non-Executive Director according to Rule 3.13 of the Hong Kong Listing Rules. The Bank holds that all Independent Non-Executive Directors have met the independence requirements of the Hong Kong Listing Rules.

ii. Attendance of general meetings by Independent Non-Executive Directors

Please refer to "III. iii" of this section for details.

iii. Attendance of Board meetings by Independent Non-Executive Directors

Please refer to "IV. iv" of this section for details.

iv. Independent Non-Executive Directors' objections to any issues of the Bank

During the reporting period, none of the independent Non-Executive directors of the Bank had raised any objections to the proposals of the Board of Directors or other issues.

v. Duty Performance of Independent Non-Executive Directors

As at the end of the reporting period, the Bank had six independent Non-Executive Directors, accounting for one-third of the Board members. The Remuneration Committee, the Related Party Transactions Control Committee and the Audit Committee of the Board of Directors were all chaired by Independent Non-Executive Directors. During the reporting period, they expressed their independent opinions on all issues involving the interests of minority shareholders, such as profit distribution plans, remuneration of the senior management, and major related party transactions in accordance with the *Articles of Association* of the Bank. In all Board committees, each of the Independent Non-Executive Directors, based on their expertise, provided professional and constructive opinions and recommendations on issues under discussion. When the Board of Directors is not in session, the Independent Non-Executive directors kept themselves updated of the Bank's internal documents and information on the Bulletin of the Board and participated in the senior management's briefings for the Board of Directors, so as to be well informed of internal control audit, strategic transformation, business development, and risk management. They communicated actively with other directors, supervisors, senior management members and external auditors, so as to obtain necessary information to perform their duties. Independent Non-Executive Directors maintained close contacts with the Bank via emails and phone calls. The Independent Non-Executive Directors' recommendations were highly valued and some were adopted, playing a positive role in defining strategic direction, and improving the risk prevention & control and profitability of the Bank.

VII. Duty Performance of Board Committees

The Board of Directors has set up the Strategy Committee, the Audit Committee, the Risk Management Committee, the Nomination Committee, the Remuneration Committee, and the Related Party Transactions Control Committee and the Inclusive Finance Development and Consumer Rights and Interests Protection Committee. During the reporting period, the special committees held 24 meetings including 3 meetings of the Strategy Committee, 5 meetings of the Audit Committee, 3 meetings of the Risk Management Committee, 4 meetings of the Nomination Committee, 4 meetings of the Remuneration Committee, and 5 meetings of the Related Party Transactions Control Committee. During these meetings, 43 proposals were reviewed and 19 reports were considered. The Board Committees, based on the division of duties and powers, carefully considered material issues in the Bank's operation and provided professional support for the Board of Directors to make well-informed decisions.

i. Strategy Committee

At the end of the reporting period, the Strategy Committee consisted of 8 members including Non-Executive Directors Mr. Gao Yunlong (Chairman), Mr. Zhang Shude, and Mr. Li Huaqiang, Executive Directors Mr. Zhang Jinliang and Mr. Ma Teng and Independent Non-Executive Directors Ms. Fok Oi Ling Catherine, Mr. Xu Hongcai and Mr. Feng Lun.

Primary duties and responsibilities of the Strategy Committee include reviewing and discussing plans on capital management and replenishment, annual operation plan and major investment programs, conducting researches on the Bank's business objectives together with medium and long-term development strategies as well as advising the Board accordingly; and duties concerning protection of consumer rights and interests (transferred to the Inclusive Finance Development and Consumer Rights and Interests Protection Committee in October 2017).

Corporate Governance

During the reporting period, the Strategy Committee reviewed and approved the proposal on the Company's business plans and financial budget plans for 2017, the 2017 annual fixed assets investment budget, and proposals on adjustments to investment amount and proportion to Everbright Consumer Finance Company Limited, investment in capital of Visa Information Technology (Beijing) Co., Ltd., non-public issuance of H shares, etc.. The Committee also heard and discussed the summary report on protection of consumer rights and interests in 2016 and plan for 2017, as well as report on strategy implementation in 2016.

During the reporting period, the Strategy Committee convened 3 meetings, reviewed 6 proposals and heard 2 reports. The attendance of the committee members is as follows:

Name	Number of Meetings	Attendance in Person	Attendance by Proxy	Absence
Gao Yunlong	3	3	0	0
Zhang Jinliang	3	2	1	0
Ma Teng	3	2	1	0
Zhang Shude	3	3	0	0
Li Huaqiang	3	3	0	0
Fok Oi Ling Catherine	3	3	0	0
Xu Hongcai	3	3	0	0
Feng Lun	3	0	3	0

ii. Audit Committee

At the end of the reporting period, the Audit Committee consists of 7 members, of which the majority and the chairman were independent Non-Executive Directors. Its members include Independent Non-Executive Directors Mr. Xie Rong (Chairman), Mr. Qiao Zhimin, Ms. Fok Oi Ling Catherine, Mr. Xu Hongcai and Mr. Wang Liguo and Non-Executive Directors Mr. Cai Yunge and Mr. Li Huaqiang.

Primary duties of the Audit Committee include examining the Bank's internal control system and monitoring its implementation; inspecting and monitoring the Bank's risk management and compliance conditions; examining and monitoring the Bank's internal audit system and guiding the work of the internal audit departments; recommending the engagement of external auditors; guiding and monitoring the work of external auditors; and overseeing the Bank's annual audit.

During the reporting period, the Audit Committee considered the annual financial audit reports for A shares and H shares, the interim review report, the quarterly reports on the implementation of agreed procedures, the internal control appraisal report and the audit report on internal control. The committee also heard the internal audit work summary, the *Recommendations for Management* of 2016 and the management's report on related rectifications; and observed and discussed the performance of the annual, interim and quarterly operation. The Committee also invited Ernst & Young Hua Ming LLP to make presentations on review and outlook of listed banks in 2016, as well as current status and transformation of domestic wealth management and private banking.

In accordance with the requirements of the *Annual Report Procedures of the Audit Committee of the Board of Directors*, the Audit Committee of the Bank earnestly carried out annual auditing, and requested the auditor to make adjustments and preparations as per changes in accounting policies and provide opinions on major issues identified in auditing. In March 2018, the Audit Committee convened its 11th meeting to review the 2017 audit report on financial statements of the Bank submitted by the auditor. The Committee held that the audit report reflected the overall situation of the Bank in a truthful, accurate and complete manner, and formed a resolution which was submitted to the Board of Directors for review.

During the reporting period, the Audit Committee convened 5 meetings (including 3 on-site meetings and 2 meetings via written resolutions), reviewed 11 proposals and considered 13 reports. The attendance of the committee members is as follows:

Name	Number of Meetings	Attendance in Person	Attendance by Proxy	Absence
Xie Rong	5	5	0	0
Cai Yunge	3	3	0	0
Li Huaqiang	5	5	0	0
Qiao Zhimin	5	5	0	0
Fok Oi Ling Catherine	5	5	0	0
Xu Hongcai	5	5	0	0
Wang Liguo	5	5	0	0

Note: On 6 June 2017, the Tenth Meeting of the Seventh Session of the Board of Directors reviewed and approved the *Proposal on Adjustments to Some Members of the Special Committees of the Seventh Session of the Board of Directors*, agreeing to add Mr. Cai Yunge as member of the Audit Committee.

iii. Risk Management Committee

As at the end of the reporting period, the Risk Management Committee consisted of 7 members, including Non-Executive Directors Mr. Zhang Shude (Chairman), Mr. Cai Yunge and Mr. Zhao Wei, Executive Directors Mr. Zhang Jinliang, Ms. Li Jie and Independent Non-Executive Directors Mr. Qiao Zhimin and Mr. Feng Lun.

Primary duties of the Risk Management Committee of the Board of Directors include: determining the risk management policies of the Bank and the overall risk tolerance; supervising the duty performance of the senior management in controlling risks of credit, market, operation, liquidity, compliance and market reputation, etc.; evaluating the basic risk management system and management mechanism of the Bank; recommending the Bank's management objective of capital adequacy ratio, reviewing and supervising the implementation of the Bank's capital plan and the monitoring of the capital adequacy ratio, and taking charge of the implementation of Basel III, data quality management and anti-money laundering management.

Corporate Governance

During the reporting period, the Risk Management Committee analyzed and evaluated the regular risk management reports and capital adequacy assessment report submitted by the senior management, clarified and re-examined the Bank's credit policies, set the risk appetite and adjusted the risk appetite indicators, considered the revisions to risk management policies and capital management policies and paid constant attention to bank-wide anti-money laundering management, data quality management and large-amount credit approval.

During the reporting period, the Risk Management Committee of the Board of Directors convened 3 meetings (including 2 on-site meetings and 1 meeting via written resolutions), reviewed 7 proposals and heard 4 reports. The attendance of the committee members is as follows:

Name	Number of Meetings	Attendance in Person	Attendance by Proxy	Absence
Zhang Shude	3	3	0	0
Zhang Jinliang	3	3	0	0
Cai Yunge	1	1	0	0
Li Jie	3	2	1	0
Zhao Wei	3	1	2	0
Qiao Zhimin	3	3	0	0
Feng Lun	3	1	2	0

Note: On 6 June 2017, the Tenth Meeting of the Seventh Session of the Board of Directors reviewed and approved the *Proposal on Adjustments to Some Members of the Special Committees of the Seventh Session of the Board of Directors*, agreeing to add Mr. Cai Yunge as member of the Risk Management Committee.

iv. Nomination Committee

As at the end of the reporting period, the Nomination Committee consisted of 4 members, including Independent Non-Executive Directors Mr. Qiao Zhimin, Mr. Xie Rong, Ms. Fok Oi Ling Catherine and Mr. Xu Hongcai.

Primary duties and responsibilities of the Nomination Committee include: building the talent pool of qualified candidates for directors and senior management; drafting the procedures and the selection criteria for directors and senior management members, preliminarily reviewing the position qualifications and conditions of candidates, and advising the Board accordingly; making the suggestions on the composition of other special committees for the Board's approval based on the nomination of the Chairman of the Board of Directors and taking into account the expertise and willingness of the director as well as the actual needs of the Board of Directors; making assessment of the Board structure, the number of Board members and the Board composition each year and offering recommendations on the adjustment of the Board of Directors according to the Bank's strategy; evaluating the training and professional development of the director and the senior management.

During the reporting period, the Nomination Committee provided recommendations on some members of special committees under the Seventh Session of the Board of Directors, made preliminary review on qualifications of new non-executive directors and senior management members and offered suggestions to the Board of Directors.

During the reporting period, the Nomination Committee convened 4 meetings (including 2 on-site meetings and 2 meetings via written resolutions) and considered 5 proposals. The attendance of committee members is as follows:

Name	Number of Meetings	Attendance in Person	Attendance by Proxy	Absence
Tang Shuangning	3	3	0	0
Qiao Zhimin	4	4	0	0
Xie Rong	4	4	0	0
Fok Oi Ling Catherine	4	4	0	0
Xu Hongcai	4	3	1	0

Note: On 27 December 2017, Mr. Tang Shuangning resigned from posts of Chairman of the Board of Directors, Non-Executive Director, Chairman and Member of Nomination Committee of the Board of Directors, and Member of Remuneration Committee of the Bank.

v. Remuneration Committee

As at the end of the reporting period, the Remuneration Committee consisted of 5 members, of which the majority and the Chairman were Independent Non-Executive Directors. The members include Independent Non-Executive Directors Mr. Qiao Zhimin (Chairman), Mr. Xie Rong, Mr. Feng Lun and Mr. Wang Liguo and Non-Executive Director Mr. Zhang Shude.

Primary duties and responsibilities of the Remuneration Committee include: drafting the remuneration management system for the directors and the senior management, making recommendations to the Board and overseeing the implementation of the system; reviewing the duty performance of directors and the senior management members and making recommendations to the Board on the examination and evaluation of them; making proposal of the remuneration plan of directors and the senior management members and submit the same to the Board for approval; reviewing the basic systems involving salaries and benefits of the Bank's employees, advising the Board accordingly and supervising the implementation of these systems, etc..

During the reporting period, the Remuneration Committee considered and approved the Board of Directors' Report on the Evaluation of General Performance of Duties by Directors for 2016 and the 2016 Remuneration Standard for Directors and studied and proposed the assessment and evaluation result of senior management members in 2016 and suggestions on remuneration standard for senior management members in 2016.

During the reporting period, the Remuneration Committee convened 4 meetings in total (including 2 on-site meetings and 2 meetings via written resolutions), and considered 4 proposals. The attendance of Committee members is as follows:

Name	Number of Meetings	Attendance in Person	Attendance by Proxy	Absence
Qiao Zhimin	4	4	0	0
Tang Shuangning	4	4	0	0
Zhang Shude	4	4	0	0
Xie Rong	4	4	0	0
Feng Lun	4	2	2	0
Wang Liguo	4	4	0	0

vi. Related Party Transactions Control Committee

As at the end of the reporting period, the Related Party Transactions Control Committee is composed of 7 members, the majority of which are Independent Non-Executive Directors. The committee is chaired by an Independent Non-Executive Director. Its members include Independent Non-Executive Directors Ms. Fok Oi Ling Catherine (Chairwoman), Mr. Qiao Zhimin, Mr. Xie Rong, Mr. Xu Hongcai, Mr. Feng Lun and Mr. Wang liguo and Non-Executive Director Mr. Zhao Wei.

Primary duties and responsibilities of the Related Party Transactions Control Committee include: filing the common related party transactions; reviewing the major related party transactions and submitting the same to the Board of Directors for consideration; providing detailed reports to the Board of Directors on the overall status, risk level and structural distribution of related party transactions conducted in the year; developing the related party transactions management measures and submitting the same to the Board of Directors for approval before implementation; identifying and reporting the related parties of the Bank to the Board of Directors and the Board of Supervisors, and timely announcing the identities of such related parties to the relevant staff of the Bank.

During the reporting period, the Related Party Transactions Control Committee reviewed and approved proposals on the 2016 report on related party transactions, 4 major related party transactions, issuance of A shares convertible bonds, non-public issuance of H shares concerning related party transactions, report on filing of 39 general related party transactions.

During the reporting period, the Related Party Transactions Control Committee held 5 meetings in total (including 3 on-site meetings and 2 meetings via written resolutions) and reviewed 10 proposals. The attendance rate of Committee members is as follows:

Name	Number of Meetings	Attendance in Person	Attendance by Proxy	Absence
Fok Oi Ling Catherine	5	5	0	0
Qiao Zhimin	5	3	2	0
Xie Rong	5	5	0	0
Xu Hongcai	5	5	0	0
Feng Lun	5	3	2	0
Zhao Wei	5	3	2	0
Wang Liguo	5	5	0	0

vii. Inclusive Finance Development and Consumer Rights and Interests Protection Committee

The main responsibilities of the Inclusive Finance Development and Consumer Rights and Interests Protection Committee include: formulating a development strategic plan for the Bank's inclusive finance business; reviewing the Bank's general policy system for inclusive finance, and assessing evaluation methods and annual business plan; guiding and supervising the senior management on the development of inclusive finance work; formulating strategies, policies, and objectives of the Bank's protection of consumer rights and interests; urging senior management to effectively implement consumer rights and interests protection related work; and supervising and evaluating consumer rights and interests protection work of the Bank.

During the reporting period, the Inclusive Finance Development and Consumer Rights and Interests Protection Committee has not yet operated.

VIII. Supervisors and the Board of Supervisors

The Board of Supervisors earnestly executed the regulatory requirements and collaborated with the Board of Directors and the senior management, while performed various supervisory duties in accordance with the law. It prudently and objectively provided the supervision and evaluation opinions on the Board of Directors, the senior management and their members, and conducted evaluation on its duty performance, in order to facilitate their effective duty performance; focused on the Bank's major financial decision-making and related implementation and reviewed the financial statements and the profit distribution plans so as to achieve targeted financial supervision; enhanced the supervision on the risk management, internal control, and supervision of strategies management and remuneration management and promoted the compliant and steady operation of the Bank by attending to reports, investigations and researches, and conducting interviews with various departments. During the reporting period, based on its investigations and studies on the Bank's business development, implementation of strategies, internal control management and corporate governance, the Board of Supervisors provided relevant recommendations for the decision-making of the Board of Director and the senior management, thus playing an active role in improving the Bank's corporate governance and healthy and sustainable development.

i. Composition of the Board of Supervisors

At the end of the reporting period, the Board of Supervisors consists of 9 members, including 3 shareholder representative supervisors (Li Xin, Yin Lianchen, Wu Junhao), 3 employee supervisors (Sun Xinhong, Jiang Ou, Huang Dan) and 3 external supervisors (Yu Erniu, Wu Gaolian, Wang Zhe). The members of the Board of Supervisors with rich experience in finance, accounting and business management, have demonstrated sufficient expertise and independence, thus ensuring the effective functioning of the Board of Supervisors.

The Board of Supervisors has set up the Nomination Committee and the Supervision Committee.

ii. Performance of Its Supervisory Duties by Board of Supervisors

The primary ways for the Board of Supervisors to perform its supervising duties include: holding regular meetings, attending the shareholders' general meetings, the meetings of the Board of Directors and board committees as non-voting delegates, attending relevant meetings of the senior management as non-voting delegates, reviewing business management reports, attending to the reports of all business lines and branches, conducting interviews with persons in charge of various branches and departments, conducting inspections on the Bank's branches and outlets, and providing its supervision recommendations and meeting minutes to the Board of Directors and the senior management. In this way, the Board of Supervisors supervised the Board of Directors and the senior management in terms of their duty performance, financial management, risk management, internal control management, strategic management and remuneration management.

iii. Meetings of the Board of Supervisors

During the reporting period, the Board of Supervisors, in accordance with the relevant provisions in the *Articles of Association* of the Bank and the rules of procedures, convened 5 meetings of the Board of Supervisors, including 3 on-site meetings and 2 meetings via written resolutions, and reviewed 18 proposals and considered 3 reports, including regular reports of the Bank, the reports on the evaluation of the duty performance of the Board of Directors and the senior management, the reports on internal control, the profit distribution plan and remuneration of the supervisors, and formed clear opinions on relevant proposals.

During the reporting period, the Board of Supervisors attended all the shareholders' general meetings and all the meetings of the Board of Directors as non-voting delegates and supervised the compliance and legality of the aforementioned meetings, the voting procedures and the attendance, speeches and voting of the members of the Board of Directors.

iv. Attendance Record of the Board of Supervisors

Name	Number of Meetings	Attendance in Person	Attendance by Proxy	Absence
Li Xin	5	5	0	0
Yin Lianchen	5	3	2	0
Wu Junhao	5	3	2	0
Yu Erniu	5	5	0	0
Wu Gaolian	5	5	0	0
Wang Zhe	5	4	1	0
Sun Xinhong	2	2	0	0
Jiang Ou	2	2	0	0
Huang Dan	2	2	0	0

Note: Mr. Sun Xinhong, Mr. Jiang Ou and Ms. Huang Dan started to perform their duties after being elected as the employee supervisors at the Bank's meeting of representatives of employees on 12 June 2017.

v. Special Committees of the Board of Supervisors

The two committees under the Board of Supervisors are the Nomination Committee and the Supervision Committee. The Nomination Committee consists of 6 members while the Supervision Committee consists of 6 members. The chairmen of both committees are external supervisors.

1. Nomination Committee

At the end of the reporting period, the members of the Nomination Committee include Mr. Yu Erniu (Chairman), Mr. Li Xin, Mr. Yin Lianchen, Mr. Wu Gaolian, Mr. Wang Zhe and Mr. Jiang Ou.

Primary duties of the Nomination Committee include making suggestions to the Board of Supervisors regarding the size and composition of the Board of Supervisors; drafting the procedures and criteria for selecting supervisors and advising the Board of Supervisors accordingly; conducting preliminary review of the qualifications and conditions of the supervisor candidates and advising the Board of Supervisors accordingly; supervising the procedures of the selection and appointment of directors; drafting the plan of supervising the duty performance of directors, supervisors and senior management, making a comprehensive evaluation in this regard and reporting to the Board of Supervisors; supervising the rationality of the remuneration management system and policies of the Bank and the remuneration plan of the senior management.

During the reporting period, the Nomination Committee considered and approved the proposals on the Board of Supervisors' appraisal report on the overall duty performance of the Board of Directors, senior management, directors and supervisors, 2016 Remuneration Standards for Supervisors, and the determination of the employee supervisor candidates.

Corporate Governance

During the reporting period, the Nomination Committee of the Board of Supervisors convened 3 meetings (including 2 on-site meetings and 1 meeting via written resolution) and reviewed 7 proposals. The attendance of committee members is as follows:

Name	Number of Meetings	Attendance in Person	Attendance by Proxy	Absence
Yu Erniu	3	3	0	0
Li Xin	3	3	0	0
Yin Lianchen	3	2	1	0
Wu Gaolian	3	3	0	0
Wang Zhe	2	2	0	0
Jiang Ou	1	1	0	0

Notes:

1. On 30 March 2017, the Fifth Meeting of the Seventh Session of the Board of Supervisors reviewed and approved the *Proposal on Adjustments to Members of the Special Committees of the Seventh Session of the Board of Supervisors,* adding Mr. Wang Zhe as member of the Nomination Committee.

2. On 25 August 2017, the Eighth Meeting of the Seventh Session of the Board of Supervisors reviewed and approved the *Proposal on Adjustments to Members of the Special Committees of the Seventh Session of the Board of Supervisors*, adding Mr. Jiang Ou as member of the Nomination Committee.

2. Supervision Committee

At the end of the reporting period, the members of the Supervision Committee include Mr. Wu Gaolian (Chairman), Mr. Wu Junhao, Mr. Yu Erniu, Mr. Wang Zhe, Mr. Sun Xinhong and Ms. Huang Dan.

Primary duties of the Supervision Committee include developing the plan for supervising the Bank's operation and decision-making, risk management and internal control, and being responsible for the implementation of this plan after it is approved by the Board of Supervisors; developing the plan for supervising the financial activities of the Bank, and being responsible for the implementation of this plan after it is approved by the Board of Supervisors; supervising the Board of Directors in setting up the concept of prudent business operation and the principles of value for the Bank and in formulating the development strategy that works best for the Bank; keeping itself informed of the preparation of the regular reports by the Board of Directors and relevant material adjustments and reporting the same to the Board of Supervisors; maintaining good communication with relevant special committees of the Board of Directors, relevant departments of the Bank and external intermediaries, and providing supervision recommendations on the Bank's appointment of its external auditors when the Committee deems it necessary.

During the reporting period, the Supervision Committee of the Board of Supervisors considered and approved the proposals on the Annual Regular Report, Evaluation Report of Internal Control, etc.

During the reporting period, the Supervision Committee of the Board of Supervisors convened 3 meetings and considered 4 proposals. The attendance of committee members is as follows:

Name	Number of Meetings	Attendance in Person	Attendance by Proxy	Absence
Wu Gaolian	3	3	0	0
Wu Junhao	3	1	2	0
Yu Erniu	3	3	0	0
Wang Zhe	2	2	0	0
Sun Xinhong	1	1	0	0
Huang Dan	1	1	0	0

Notes:

1. On 30 March 2017, the Fifth Meeting of the Seventh Session of the Board of Supervisors reviewed and approved the *Proposal on Adjustments to Members of the Special Committees of the Seventh Session of the Board of Supervisors,* adding Mr. Wang Zhe as member of the Supervision Committee.

2. On 25 August 2017, the Eighth Meeting of the Seventh Session of the Board of Supervisors reviewed and approved the *Proposal on Adjustments to Members of the Special Committees of the Seventh Session of the Board of Supervisors,* adding Mr. Sun Xinhong and Ms. Huang Dan as members of the Supervision Committee.

vi. Supervision by the Board of Supervisors

The Board of Supervisors had no objection to the supervision matters during the reporting period.

IX. Securities Transactions by Directors, Supervisors and Relevant Employees

The Bank has adopted the standards set out in the *Model Code* in the Appendix 10 to the Hong Kong Listing Rules as the code of conduct to govern the securities transactions by directors and supervisors of the Bank. Having been enquired by the Company, all directors and supervisors confirmed that they had always complied with the *Model Code* for the year ended 31 December 2017. The Bank has also formulated guidelines regarding the dealing of the Bank's securities by relevant employees and the guidelines are no less lenient than the Model Code. It has not come to the attention of the Bank that any employee was in violation of the guidelines during the reporting period.

X. Senior Management

The senior management of the Bank consisted of 10 members, who are responsible for the operation and management of the Bank, implementing the resolutions of the Board of Directors, the strategic plans, the business plan and investment plans approved by the Board of Directors, developing plans of setting up internal managerial bodies and the basic management systems and regulations, and formulating specific administrative measures.

During the reporting period, the senior management, in accordance with the development strategy of the Bank, actively and effectively carried out the Bank's operation and management, earnestly implemented the business plan and the financial budget determined by the Board of Directors, better achieved the development targets set at the beginning of year and ensured the steady growth of business and continuous increase of profits.

XI. Evaluation and Implementation of Assessment and Incentive of Senior Management

In accordance with the relevant provisions of the *Provisional Measures on Performance Assessment of Senior Management*, the Remuneration Committee of the Board of Directors is responsible for formulating the implementation plan for the performance assessment of senior management. During the reporting period, by taking into consideration the overall operation of the Bank and the duty performance of the senior management, the Remuneration Committee formulated the proposal of the 2016 performance evaluation grade of each senior management member and the remuneration plan, which were considered and approved by the Board of Directors before implementation.

XII. Training of Directors and Supervisors

During the reporting period, some directors participated in special training for directors of listed companies under the jurisdiction of Beijing organized by the Beijing Association for Listed Companies. Some supervisors participated in the special training for new supervisors held by Beijing Securities Regulating Bureau and the supervisor performance ability training organized by the China Everbright Group Limited.

The participation by the Bank's directors and supervisors in the training programs on corporate governance, policies, laws and regulations, and business operation and management, complied with Provision A.6.5 of Appendix 14 of the Hong Kong Listing Rules.

XIII. Auditor's Remuneration

Please refer to "Significant Events" of this Annual Report for details.

XIV. Implementation of Information Disclosure

During the reporting period, the Bank, as a company listed in both Shanghai and Hong Kong, fully apprehended their regulatory requirements, complied with relevant requirements on information disclosure in all respects, disclosed information timely and fairly, and ensured that the information disclosed was true, accurate and complete. Regarding the disclosure of regular reports, the Bank properly completed the preparation and disclosure of the 2016 annual report, the 2017 half-year report (interim report) and quarterly reports. In terms of the disclosure of material matters, the Bank timely disclosed the issuance of A shares convertible bonds and non-public issuance of H shares. During the year, the Bank published 102 A share ad hoc announcements (including online non-announcement documents) and 151 H share ad hoc announcements (including A share overseas regulatory announcements). Pursuant to the requirements on the issuance of POWL by the Japanese securities regulator, the Bank timely disclosed the 2016 annual report, the 2017 half-year report in the Japanese market to satisfy its information disclosure requirements.

XV. Investor Relationship

During the reporting period, the Bank abided by provisions of domestic and overseas laws and regulations and the requirements of regulatory authorities, managed investor relationships through various activities so as to enhance its communication with investors. The Bank held the 2016 financial results (A+H shares) announcement and press conference in Hong Kong. Over 100 institutional investors, bank analysts and media correspondents from home and abroad participated this communication events. It held the online text explanation session on 2016 cash dividends for its investors on the “SSE e-interaction” platform. 41 visits and on-site investigations were arranged for 263 domestic and overseas investors and analysts. Over 12 strategy seminars and on-site group meetings were held. The Bank answered over 500 phone calls from domestic and overseas investors and replied over 400 emails for inquiry. It interacted with investors via interactive online platforms such as “SSE e-interaction”. The contents of the Bank’s website in both Chinese and English versions have been updated in a timely manner to inform investors about the Bank. The Bank also actively communicated with minority shareholders attending the shareholders’ general meeting to answer their questions.

XVI. Company Secretary and Assistant to Company Secretary under the Hong Kong Listing Rules

During the reporting period, Mr. Lu Hong served as the Company Secretary under the Hong Kong Listing Rules and Ms. Lee Mei Yi (Tricor Services Limited) acted as the Assistant to Company Secretary. Mr. Lu Hong was the main contact person of the Bank. During the reporting period, Mr. Lu Hong and Ms. Lee Mei Yi had participated in relevant professional training for no less than 15 hours in compliance with Rule 3.29 of the Hong Kong Listing Rules. On 30 October 2017, Mr. Li Jiayan was appointed as Secretary of the Bank’s Board of Directors and Company Secretary at the fourteenth meeting of the seventh session of the Board of Directors. On 10 January 2018, CBRC approved the qualifications of Mr. Li Jiayan as Board Secretary and Mr. Li officially performed duties as Board Secretary and Company Secretary of the Bank. Meanwhile, Mr. Lu Hong was no longer Board Secretary or Company Secretary of the Bank. Mr. Li Jiayan will attend relevant vocational trainings in 2018 in order to comply with Rule 3.29 of the Hong Kong Listing Rules.

XVII. Shareholders’ Rights

i. Shareholders who individually or jointly hold more than ten percent of the voting shares of the Bank shall have the right to request the Board of Directors to convene an extraordinary general meeting. Such request shall be made in writing to the Board of Directors.

ii. Shareholders who individually or jointly hold more than three percent of voting shares of the Bank may provide an interim proposal and submit it in writing to the Board of Directors ten days before the shareholders’ general meeting is convened. The Board of Directors shall issue a supplementary notice for the shareholders’ general meeting within two days upon receipt of the proposal and submit such proposal to the shareholders’ general meeting for approval.

iii. An extraordinary Board meeting shall be convened and presided over by the Chairman within ten days since it is proposed by the shareholders who individually or jointly hold more than ten percent of the voting shares of the Bank.

iv. Unless there are specified provisions regarding the rights of the holders of preference shares in laws, regulations, rules, regulatory documents and the *Articles of Association* of the Bank, all the shareholders of the Bank shall have the following rights:

1. Collecting dividends and other forms of benefits distributed on the basis of the number of shares held by them;

2. Attending or entrusting proxy to attend meetings of shareholders and exercise the voting rights;

3. Supervising business operation of the Bank and putting forward recommendations or inquiries accordingly;

4. Transferring shares in accordance with laws, regulations, rules, regulatory documents, relevant regulations of the securities regulatory authority of the jurisdiction where shares of the Bank are listed and the Articles of Association of the Bank;

5. Obtaining relevant information according to the *Articles of Association* of the Bank, including the Bank's financial and accounting statements; status of share capital of the Bank; minutes of the shareholders' general meetings, resolutions of meetings of Board of Directors and resolutions of meetings of the Board of Supervisors, etc.;

6. Participating in the distribution of the Bank's remaining assets in proportion to the number of shares held by the shareholders when the Bank is terminated or liquidated.

v. Holders of preference shares of the Bank shall be entitled to the following special rights:

1. Rights to dividends in priority to holders of ordinary shares;

2. Rights to distribution of residual assets of the Bank upon liquidation in priority to holders of ordinary shares;

3. Rights to attend and vote at shareholders' general meetings upon occurrence of prescribed events;

4. Upon occurrence of prescribed events, to have its voting rights restored.

Please refer to the *Articles of Association* of the Bank for more details about shareholders' rights. As to the contact details of shareholders' communicating and enquiry with the Board, please refer to "Corporate Information" of this report.

XVIII. Statement of Compliance with the Banking (Disclosure) Rules

The Bank has prepared the 2017 H share annual financial statements in accordance with the *Banking (Disclosure) Rules* by the Hong Kong Monetary Authority.

XIX. Compliance with the Corporate Governance Code of the Hong Kong Listing Rules

Since its listing on the HKEX, the Bank has applied the principles as stipulated in Appendix 14 to the Hong Kong Listing Rules (the *Corporate Governance Code*). Except for the relevant disclosures made in the section, the Company has fully complied with all the Code Provisions during the reporting period.

XX. Assessment Report on Internal Control by the Bank

Based on the outcome of the review of material defects in the internal control related to financial reporting of the Bank, the Bank, as at the reference date (i.e. 31 December 2017) for the self-assessment report on internal control, had not discovered any material defects in the internal control system related to financial statements reporting, and had maintained an effective internal control over financial statements reporting in accordance with the Standards of Enterprise's Internal Control in all material aspects.

Based on the outcome of the review of internal control relating to the areas other than financial statements reporting of the Bank, the Bank, as at the reference date (i.e. 31 December 2017) for the self-assessment report on internal control, had not discovered any material defects in internal control relating to the areas other than financial statements reporting.

From the reference date of self-assessment report on internal control to the date of release of the self-assessment report on internal control, there was no factor which may affect the effectiveness of evaluation of the internal control system.

The full text of the *2017 Self-assessment Report on Internal Control* of the Bank has been published on the websites of the SSE, HKEX (in the form of overseas regulatory announcement) and the Bank.

The internal control system of the Bank is primarily based on the Articles of Association of the Bank and is divided into three tiers including general system, specific system and evaluation system. The system covers seven major business lines such as corporate banking, retail banking, financial market, internal control of risk, financial operation, comprehensive management and IT, and covers various aspects including the management of front-line businesses, intermediate and back-office risk control, supervision and evaluation. Such 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.

Please refer to "Discussion and Analysis on the Operations" for details of information relevant to the risk management system of the Bank and works during the reporting period.

The Board of Directors of the Bank periodically reviews and assesses the corporate governance, risk management and internal control. The Board of Directors believes that the system of corporate governance, risk management and internal control of the Bank is sufficient and effective during the reporting period.

XXI. Auditor's Report on the Internal Control of the Bank

Ernst & Young Hua Ming LLP has audited the internal control system of the Bank and issued an audit opinion that, on 31 December 2017, the Bank has maintained an effective internal control on its financial reporting in all material aspects in accordance with the *Basic Standards for Internal Control System of Enterprises* and relevant regulations. The full text of the audit opinion has been published on the websites of the SSE, the HKEX (in the form of overseas regulatory announcement) and the Bank.

Independent Auditors' Report

To the shareholders of China Everbright Bank Company Limited
(Established in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of China Everbright Bank Company Limited (the "Bank") and its subsidiaries (the "Group") set out on pages 125 to 275, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loans and advances to customers	
The assessment of impairment of loans and advances to customers involves significant judgment. The Group adopts individual impairment assessment approach for individually significant loans or loans with unique characteristics of the credit risk; and collective impairment assessment approach for individually assessed loans with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and advances to customers which are not considered individually significant and not assessed individually. Under the collective approach, assessment of future cash flows for loan portfolios is based on historical loss experience of loans with similar credit risk characteristics, with adjustments based on the impact from changes of and uncertainties in macro-economic environment. The future cash flows of loans without collaterals or guarantees, or loans that are not adequately collateralized, are subject to higher uncertainties. Since loan impairment assessment involves judgment and assumptions, and in view of the significance of the amount (As at 31 December 2017, gross loans and advances to customers amounted to RMB2,032.056 billion, representing 49.70% of total assets, and impairment allowance for loans and advances to customers amounted to RMB51.238 billion), we consider it as a key audit matter. Relevant disclosures are included in Note III 1, Note V.18 and Note V.51(a)to the consolidated financial statements.	We evaluated and tested the effectiveness of design and implementation of key controls relating to credit approval process, post approval credit management, loan grading system, collateral monitoring and loan impairment assessment, including testing of relevant data quality and information systems. We adopted a risk-based sampling approach in our loan review procedures. We assessed the debtors' repayment capacity and evaluated the appropriateness of the Group's loan classification, by reviewing post-lending investigation reports, debtors' financial information, collateral valuation reports and other available information. We assessed the collective impairment model and considered the appropriateness of management's assumptions on classification of loan portfolios, loss identification period, migration rate, loss given default and impact of macro-economic changes for various types of loan portfolio. We also assessed management consideration of macro-economic indicators, industry trends and other changes in current economic environment. We evaluated the parameters and assumptions used in the collective impairment model, and compared them with historical loss data for loan portfolios, observable economic data, market information and industry trends. We tested the discounted cash flow models and the related assumptions used in individual impairment assessment by assessing the amount, timing and likelihood of estimated future cash flows, including cash flows from collaterals. We compared the assumptions with available external information. Furthermore, we evaluated and tested the design and operating effectiveness of internal controls over the financial statements disclosure on credit risk and impairment allowance.

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments	
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 particularly those required significant unobservable inputs, usually involve subjective judgment and assumptions. With different valuation techniques and assumptions applied, the valuation results can vary significantly. As at 31 December 2017, financial assets and financial liabilities measured at fair value amounted to RMB442.488 billion and RMB299.145 billion respectively, representing 10.82% and 7.91% of total assets and total liabilities respectively. Financial instruments which required either directly (i.e. as prices) or indirectly (i.e. derived from prices) inputs, hence categorized within level 2 of the fair value hierarchy, represented 42.16% of total financial assets measured at fair value; Financial instruments which required significant unobservable inputs, hence categorized within level 3 of the fair value hierarchy, represented 0.0034% of total financial assets measured at fair value. Due to the significance of financial instruments measured at fair value, and the uncertainty in valuation, this is considered a key audit matter. Relevant disclosures are included in Note III 2 and Note V.52 to the consolidated financial statements.	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. 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. 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 fair value and sensitivity disclosures in the annual report adequately presented the risk of the Group.

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Unconsolidated structured entities	
The Group established various structured entities, such as bank wealth management products, funds, trust plans, in conducting asset management business and investments. 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. 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. Due to the significance of the unconsolidated structured entities and the complexity of judgment exercised by the management, it is considered a key audit matter. Relevant disclosures are included in Note III 7 and Note V.44 to the consolidated financial statements.	We assessed and tested the design and operating effectiveness of the key controls relating to the Group's assessment of whether it controls structured entities. We assessed the Group's analysis and conclusions on whether or not it controls structured entities by reviewing relevant term sheets to analyze 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. We also assessed whether the Group had provided liquidity support or credit enhancement to structured entities, as well as fairness of transactions between the Group and structured entities. Furthermore, we assessed and tested the design and operating effectiveness of the Group's controls over its disclosures of unconsolidated structured entities.

Other Information included in the Bank's 2017 Annual Report

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

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

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

Responsibilities of the Directors for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
(Continued)

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.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
(Continued)

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

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

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

Ernst & Young
Certified Public Accountants
Hong Kong

28 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	2017	2016
Interest income		160,343	143,450
Interest expense		(99,393)	(78,162)
Net interest income	1	60,950	65,288
Fee and commission income		33,025	29,932
Fee and commission expense		(2,251)	(1,820)
Net fee and commission income	2	30,774	28,112
Net trading (losses)/gains	3	(2,751)	223
Dividend income		6	5
Net losses arising from investment securities	4	(193)	(261)
Net foreign exchange gains		2,464	338
Other net operating income		768	660
Operating income		92,018	94,365
Operating expenses	5	(30,802)	(30,254)
Operating profit before impairment		61,216	64,111
Impairment losses on assets	8	(20,570)	(23,931)
Profit before tax		40,646	40,180
Income tax	9	(9,035)	(9,792)
Net profit		31,611	30,388
Net profit attributable to:			
Equity shareholders of the Bank		31,545	30,329
Non-controlling interests		66	59
		31,611	30,388
Earnings per share			
Basic earnings per share (in RMB)	10	0.64	0.63
Diluted earnings per share (in RMB)	10	0.59	0.63

The notes on pages 132 to 275 form part of these financial statements.

Consolidated Statement of Comprehensive Income

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

	Note V	2017	2016
Net profit		31,611	30,388
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets:			
– Net change in fair value		(3,458)	(5,165)
– Reclassified to profit or loss upon disposal		360	592
– Related income tax effect	26(b)	768	1,143
Exchange differences on translation of financial statements of overseas subsidiaries		(87)	33
Items that will not be reclassified to profit or loss:			
– Remeasurement of supplementary retirement benefits	33(b)	63	(23)
Other comprehensive income, net of tax		(2,354)	(3,420)
Total comprehensive income		29,257	26,968
Total comprehensive income attributable to:			
Equity shareholders of the Bank		29,191	26,909
Non-controlling interests		66	59
		29,257	26,968

The notes on pages 132 to 275 form part of these financial statements.

Consolidated Statement of Financial Position

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

	Note V	31 December 2017	31 December 2016
Assets			
Cash and deposits with the central bank	11	353,703	381,620
Deposits with banks and other financial institutions	12	44,754	232,630
Precious metals		40,352	22,720
Placements with banks and other financial institutions	13	148,816	126,305
Financial assets at fair value through profit or loss	14	24,196	7,791
Derivative financial assets	15	4,513	4,950
Financial assets held under resale agreements	16	91,441	67,000
Interests receivable	17	28,576	25,339
Loans and advances to customers	18	1,980,818	1,751,644
Finance lease receivables	19	56,364	55,560
Available-for-sale financial assets	20	414,547	425,131
Held-to-maturity investments	21	344,617	257,500
Debt securities classified as receivables	22	514,576	627,678
Fixed assets	24	14,929	14,228
Goodwill	25	1,281	1,281
Deferred tax assets	26	7,596	5,622
Other assets	27	17,164	13,043
Total assets		4,088,243	4,020,042
Liabilities and equity			
Liabilities			
Due to the central bank		232,500	187,000
Deposits from banks and other financial institutions	29	577,447	830,354
Placements from banks and other financial institutions	30	106,798	95,501
Derivative financial liabilities	15	6,552	4,368
Financial assets sold under repurchase agreements	31	45,581	41,195
Deposits from customers	32	2,272,665	2,120,887
Accrued staff costs	33	8,412	7,776
Taxes payable	34	4,932	4,501
Interests payable	35	40,206	33,576
Debt securities issued	36	445,396	412,500
Other liabilities	37	42,318	31,316
Total liabilities		3,782,807	3,768,974

The notes on pages 132 to 275 form part of these financial statements.

Consolidated Statement of Financial Position

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

	Note V	31 December 2017	31 December 2016
Equity			
Share capital	38	52,489	46,679
Other equity instrument	39	35,108	29,947
Capital reserve	40	53,533	33,365
Other comprehensive income	41	(1,845)	509
Surplus reserve	42	21,054	17,951
General reserve	42	52,257	51,447
Retained earnings	43	92,164	70,557
Total equity attributable to equity shareholders of the Bank		304,760	250,455
Non-controlling interests		676	613
Total equity		305,436	251,068
Total liabilities and equity		4,088,243	4,020,042

Approved and authorised for issue by the board of directors on 28 March 2018.

Li Xiaopeng
Chairman of the Board
of Directors,
Non-executive Director

Zhang Jinliang
President
Executive Director

Xie Rong
Independent Non-executive
Director

The notes on pages 132 to 275 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2017

(Expressed in millions of Renminbi, unless otherwise stated)

	Note V	Attributable to equity shareholders of the Bank									
		Share Capital	Other equity instrument	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at 1 January 2017		46,679	29,947	33,365	509	17,951	51,447	70,557	250,455	613	251,068
Changes in equity for the year:											
Net income		–	–	–	–	–	–	31,545	31,545	66	31,611
Other comprehensive income	41	–	–	–	(2,354)	–	–	–	(2,354)	–	(2,354)
Capital injection by ordinary shareholders		5,810	–	20,168	–	–	–	–	25,978	–	25,978
Equity component of convertible bonds	39	–	5,161	–	–	–	–	–	5,161	–	5,161
Appropriation of profit:	43										
– Appropriation to surplus reserve		–	–	–	–	3,103	–	(3,103)	–	–	–
– Appropriation to general reserve		–	–	–	–	–	810	(810)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	(4,575)	(4,575)	(3)	(4,578)
– Dividends to preference shareholders		–	–	–	–	–	–	(1,450)	(1,450)	–	(1,450)
Balance at 31 December 2017		52,489	35,108	53,533	(1,845)	21,054	52,257	92,164	304,760	676	305,436

	Note V	Attributable to equity shareholders of the Bank									
		Share Capital	Other equity instrument	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total
Balance at 1 January 2016		46,679	19,965	33,365	3,929	14,964	40,271	64,320	223,493	554	224,047
Changes in equity for the year:											
Net income		–	–	–	–	–	–	30,329	30,329	59	30,388
Other comprehensive income	41	–	–	–	(3,420)	–	–	–	(3,420)	–	(3,420)
Capital injection by preference shareholders		–	9,982	–	–	–	–	–	9,982	–	9,982
Appropriation of profit:	43										
– Appropriation to surplus reserve		–	–	–	–	2,987	–	(2,987)	–	–	–
– Appropriation to general reserve		–	–	–	–	–	11,176	(11,176)	–	–	–
– Dividends to ordinary shareholders		–	–	–	–	–	–	(8,869)	(8,869)	–	(8,869)
– Dividends to preference shareholders		–	–	–	–	–	–	(1,060)	(1,060)	–	(1,060)
Balance at 31 December 2016		46,679	29,947	33,365	509	17,951	51,447	70,557	250,455	613	251,068

The notes on pages 132 to 275 form part of these financial statements.

Consolidated Cash Flow Statement

For the Year Ended 31 December 2017
(Expressed in millions of Renminbi, unless otherwise stated)

	2017	2016
Cash flows from operating activities		
Net profit	31,611	30,388
Adjustments for:		
Impairment losses on assets	20,570	23,931
Depreciation and amortisation	2,136	2,182
Unwinding of discount	(1,015)	(876)
Dividends income	(6)	(5)
Unrealised foreign exchange losses/(gains)	566	(632)
Net losses on disposal of investment securities	193	261
Net losses/(gains) on disposal of trading securities	25	(10)
Revaluation losses/(gains) on financial instruments at fair value through loss or profit	2,726	(213)
Interest expense on debt securities issued	20,582	11,299
Net (gains)/losses on disposal of fixed assets	(45)	8
Income tax	9,035	9,792
	86,378	76,125
Changes in operating assets		
Net decrease/(increase) in deposits with the central bank, banks and other financial institutions	81,409	(51,367)
Net decrease/(increase) in placements with banks and other financial institutions	18,283	(24,247)
Net increase in loans and advances to customers	(248,736)	(297,953)
Net (increase)/decrease in financial assets held under resale agreements	(24,442)	87,060
Net increase in other operating assets	(22,330)	(33,292)
	(195,816)	(319,799)
Changes in operating liabilities		
Net (decrease)/increase in deposits from banks and other financial institutions	(252,907)	289,288
Net increase in placements from banks and other financial institutions	11,297	35,196
Net increase/(decrease) in financial assets sold under repurchase agreements	4,382	(17,720)
Net increase in amount due to central bank	45,500	172,160
Net increase in deposits from customers	151,778	127,044
Income tax paid	(10,066)	(12,126)
Net increase/(decrease) in other operating liabilities	16,733	(489)
	(33,283)	593,353
Net cash flows (used in)/from operating activities	(142,721)	349,679

The notes on pages 132 to 275 form part of these financial statements.

	Note V	2017	2016
Cash flows from investing activities			
Proceeds from disposal and redemption of investments		766,967	470,303
Proceeds from dividends income		6	5
Proceeds from disposal of fixed assets and other assets		634	212
Payments on acquisition of investments		(750,800)	(890,635)
Payments on acquisition of fixed assets, intangible assets and other long-term assets		(4,489)	(3,210)
Net cash flows from/(used in) investing activities		12,318	(423,325)
Cash flows from financing activities			
Capital injection by shareholders		25,978	–
Net proceeds from issue of preference shares		–	9,982
Net proceeds from issue of new debt securities		38,058	202,440
Interest paid on debt securities issued		(18,724)	(11,350)
Dividends paid		(6,028)	(9,938)
Net cash flows from financing activities		39,284	191,134
Effect of foreign exchange rate changes on cash and cash equivalents		(2,465)	2,055
Net (decrease)/increase in cash and cash equivalents	47(a)	(93,584)	119,543
Cash and cash equivalents as at 1 January		241,507	121,964
Cash and cash equivalents as at 31 December	47(b)	147,923	241,507
Interest received		157,079	135,397
Interest paid (excluding interest expense on debt securities issued)		(74,034)	(63,806)

The notes on pages 132 to 275 form part of these financial statements.

Notes to the Consolidated Financial Statements

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

I BACKGROUND INFORMATION

China Everbright Bank Company Limited (the "Bank") commenced its operations in Beijing, the People's Republic of China ("the PRC") on 18 August 1992. The A-shares and H-shares of the Bank were listed on the Shanghai Stock Exchange in August 2010 and The Stock Exchange of Hong Kong Limited in December 2013 respectively.

The Bank is licensed as a financial institution by the China Banking Regulatory Commission (the "CBRC") No. B0007H111000001 and is issued the business license of legal enterprise No. 91110000100011743X by the State Administration of Industry and Commerce of the PRC. The registered address is No.25, Taipingqiao Ave, Everbright Center, Xicheng District, Beijing, P. R. China.

The principal activities of the Bank and its subsidiaries (Note V 23) (collectively the "Group") are the provision of corporate and retail deposits, loans and advances, settlement, treasury business and other financial services as approved by the China Banking Regulatory Commission (the "CBRC"). The Bank mainly operates in mainland China, which, for the purpose of the report, excludes the Hong Kong Special Administration Region of the PRC ("Hong Kong"), the Macau Special Administration Region of the PRC and Taiwan.

The Bank has branches in 31 provinces, autonomous regions, municipalities in mainland China, Hong Kong, Seoul in South Korea and Luxembourg as at 31 December 2017.

These financial statements have been approved by the Board of Directors on 28 March 2018.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). In addition, the consolidated financial statements comply with the disclosure requirements of the Hong Kong Companies Ordinance.

Financial assets available for sale and financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) are measured at their fair values in the consolidated financial statement. Other accounting items are measured at their historical costs. Impairment is recognised if there is objective evidence of impairment of assets.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note III.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

1 Basis of preparation (continued)

As a financial institution incorporated in the PRC and listed on the Shanghai Stock Exchange, the Group also prepared its consolidated financial statements for the reporting period in accordance with the "Accounting Standards for Business Enterprises-Basic Standard" issued by the Ministry of Finance of the People's Republic of China (the "MOF"), as well as additional specific accounting standards, the Application Guide and Interpretations of Accounting Standards and other relevant regulations (collectively known as the "PRC GAAP"). There is no difference in the net profit for the year or total equity as at the end of the year between the Group's consolidated financial statements prepared under IFRSs and those prepared under PRC GAAP.

1.1 Standards, amendments and interpretations effective in 2017

On 1 January 2017, the Group adopted the following new standards, amendments and interpretations.

IAS 7 Amendments	*Statement of Cash Flows*
IAS 12 Amendments	*Recognition of Deferred Tax Assets for Unrealised Losses*
Annual Improvements to IFRSs 2014-2016 cycle (issued in December 2016):	
IFRS 12	*Disclosure of Interests in Other Entities*

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

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

Annual Improvements to IFRSs 2014-2016 cycle:

IFRS 12 Disclosure of Interests in Other Entities

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

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

(Expressed in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

1 Basis of preparation (continued)

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

		Effective for annual periods beginning on or after
IAS 40 Amendments	*Transfers of Investment Property*	1 January 2018
IFRS 2 Amendments	*Share-based Payment*	1 January 2018
IFRS 4 Amendments	*Insurance Contracts*	1 January 2018
IFRS 9	*Financial Instruments*	1 January 2018
IFRS 15 and Amendments	*Revenue from Contracts with Customers*	1 January 2018
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*	1 January 2018
IFRS 16	*Leases*	1 January 2019
IFRIC Interpretation 23	*Uncertainty over Income Tax Treatments*	1 January 2019
IFRS 9 Amendments	*Prepayment Features with Negative Compensation*	*1 January 2019*
IAS 19 Amendments	*Employee Benefits*	*1 January 2019*
IAS 28 Amendments	*Long-term Interests in Associates and Joint Ventures*	*1 January 2019*
IFRS 17	*Insurance Contracts*	1 January 2021
IFRS 10 and IAS 28 Amendments	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Effective date has been deferred indefinitely
Annual Improvements to IFRSs 2014-2016 cycle (issued in December 2016):		
IAS 28	*Investments in Associates and Joint Ventures*	1 January 2018
IFRS 1	*First-time Adoption of International Financial Reporting Standards*	1 January 2018
Annual Improvements to IFRSs 2015-2017 cycle (issued in December 2017)		1 January 2019

IAS 40 Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

1 Basis of preparation (continued)

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

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

The IASB issued amendments to IFRS 4 that address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard that the IASB is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

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

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

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

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

1 Basis of preparation (continued)

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

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

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

In May 2017, the IASB issued IFRS 17 Insurance Contracts to replace IFRS 4 Insurance Contracts. The standard provides a general model for insurance contracts and two additional approaches: the variable fee approach and the premium allocation approach. IFRS 17 covers the recognition, measurement, presentation and disclosure of insurance contracts and applies to all types of insurance contracts.

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

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

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

Annual Improvements to IFRSs 2015-2017 cycle was issued in December 2017. Those amendments affect IFRS 3 – Business Combinations, IFRS 11- Joint Arrangements, IAS 12 – Income Taxes and IAS 23 – Borrowing Costs. The amendments are effective from annual period beginning on or after 1 January 2019. No amendment was early adopted by the Group and no material changes to accounting policies were made in 2017.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

1 Basis of preparation (continued)

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

1.2.1 IFRS 9 – Financial Instruments

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

Classification and Measurement

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

Business model

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

Characteristics of the contractual cash flows

The assessment of the characteristics of the contractual cash flows aims to identify whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

1 Basis of preparation (continued)

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

1.2.1 IFRS 9 – Financial Instruments (continued)

Impairment

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

Measurement of ECL

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

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

- Stage I: The financial instruments without significant increases in credit risk after initial recognition are included in Stage I to calculate their impairment allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;

- Stage II: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of impairment are included in Stage II, with their impairment allowance measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

- Stage III: Financial assets with objective evidence of impairment at the balance sheet date are included in Stage III, with their impairment allowance measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

For the previous accounting period, the impairment allowance has been measured at the amount equivalent to the ECL over the entire lifetime of the financial instrument. However, at the balance sheet date of the current period, if the financial instrument no longer belongs to the situation of there being a significant increase in credit risk since initial recognition, the Group will measure the impairment allowance of the financial instruments on the balance sheet date of the current period according to the ECL in the next 12 months.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

1 Basis of preparation (continued)

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

1.2.1 IFRS 9 – Financial Instruments (continued)

Impairment (continued)

Measurement of ECL (continued)

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

– An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

– The time value of money; and

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

When measuring ECL, an entity need not necessarily identify every possible scenario. However, the Group shall consider the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low.

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

– Criteria for judging significant increases in credit risk;

– Definition of credit-impaired financial asset;

– Parameters for measuring ECL;

– Forward-looking information.

Impacts

Considering the impact of these standards, and interpretations on the consolidated financial statements, the Group will record an adjustment to 1 January 2018 retained earnings and other comprehensive income at the adoption date, but will not restate comparative periods. The adoption of IFRS 9 will reduce shareholders' equity by 2.87% as at 1 January 2018. The estimated impact relates primarily to the implementation of the ECL requirements in the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

1 Basis of preparation (continued)

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

1.2.2 IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS.

IFRS 15 does not apply to revenue associated with financial instruments, and therefore, will not impact the majority of the Group's revenue, including net interest income, net trading gains and net gains from investment securities which are covered under IFRS 9. According to the current assessment, IFRS 15 has no significant impact on the overall financial statements of the Group.

2 Consolidation

Subsidiaries are all entities (including corporates, divided parts of associates, and structured entities controlled by corporates) over which the Group has control. That is the Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible and rights arising from other contractual arrangements are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. If the changes of the relevant facts and circumstances resulting in the definition of control involved in the changes of relevant elements, the Group will re-evaluate whether subsidiaries are controlled.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

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. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

2 Consolidation (continued)

In the Bank's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments, but does not include acquisition-related costs, which are expensed as incurred. The dividends or profits declared to distribute by the invested entity shall be recognised by the Bank as the current investment income of subsidiaries.

3 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central banks, short-term deposits and placements with banks and other financial institutions, and highly liquid short-term investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

4 Foreign currency translation

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi 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.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are translated at the foreign exchange rates ruling at that date. Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the statement of profit and loss, and other changes in the carrying amount are recognised in other comprehensive income. Translation differences on all other monetary assets and liabilities are recognised in the statement of profit and loss.

Non-monetary assets and liabilities that are measured at historical cost in foreign currencies are translated using the foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated using the foreign exchange rates at the date the fair value is determined. Translation differences on non-monetary financial assets classified as available for sale are recognised in other comprehensive income. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised as “Net trading gains” in the statement of profit and loss.

Assets and liabilities of foreign operation are translated to Renminbi at the spot exchange rate at the balance sheet date. Equity items, excluding “Retained Earnings”, are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operation are translated to Renminbi at the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in shareholders, equity with respect to a foreign operation are transferred to profit or loss in the period when the foreign operation is disposed.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

5 Financial instruments

5.1 Classification

The Group classifies its financial assets into the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets.

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities.

The Group determines the classification of its financial assets and financial liabilities at initial recognition.

(1) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss have two sub-categories: financial assets and financial liabilities held for trading, and those designated as at fair value through profit or loss at inception.

– acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or

– part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

– a derivative except for a derivative that is a designated and effective hedging instrument or a financial guarantee contract.

A financial asset or financial liability is classified at fair value through profit or loss at inception if it meets either of the following criteria and is designated as such by management on initial recognition:

– the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases; or

– a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel; or

– the financial instrument contains one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

5 Financial instruments (continued)

5.1 Classification (continued)

(2) Held-to-maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity and that do not meet the definition of loans and receivables nor are designated as at fair value through profit or loss or as available for sale.

The Group shall not classify any financial assets as held to maturity if the entity has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held to maturity investments before maturity other than restricted circumstances such as sales or reclassifications due to a significant deterioration in the issuer's creditworthiness or industry's regulatory requirements.

(3) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) those that the Group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;

(b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or

(c) those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Loans and receivables mainly comprise loans and advances to customers, debt securities classified as receivables, deposits and placements with banks and other financial institutions and financial assets held under resale agreements. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

5 Financial instruments (continued)

5.1 Classification (continued)

(4) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

(5) Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other non-derivative financial liabilities.

5.2 Initial recognition

A financial asset or financial liability is recognised on trade-date, the date when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss. For other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

5.3 Subsequent measurement

Financial assets available for sale and financial assets and financial liabilities at fair value through profit or loss are subsequently carried at fair value. Financial assets classified as loans and receivables and held to maturity and other financial liabilities are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets and financial liabilities at fair value through profit or loss category are included in the statement of profit and loss in the period in which they arise. Dividends on equity instruments of this category are also recognised in the statement of profit and loss when the Group's right to receive payments is established.

Gains and losses arising from changes in the fair value of available for sale assets are recognised in "Other comprehensive income", until the financial asset is de-recognised or impaired. At this time the cumulative gain or loss previously recognised in "Other comprehensive income" is reclassified from equity to the statement of profit and loss. Interest on available for sale debt instruments calculated using the effective interest method as well as dividends on equity instruments of this category when the Group's right to receive such payments is established are recognised in the statement of profit and loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

5 Financial instruments (continued)

5.4 Determination of fair value

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and option pricing models, and other valuation techniques commonly used by market participants.

The Group uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. The Group makes use of all factors that market participants would consider in setting a price, and incorporates these into its chosen valuation techniques and tests for validity using prices from any observable current market transactions in the same instruments.

5.5 De-recognition of financial instruments

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

– the contractual rights to the cash flows from the financial asset expire; or

– the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in profit or loss.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

5 Financial instruments (continued)

5.6 Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the year to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial asset and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence includes the following loss event:

– significant financial difficulty of the issuer or borrower;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

– the disappearance of an active market for that financial asset because of financial difficulties;

– any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;

– a significant or prolonged decline in the fair value of an equity instrument is an indicator of impairment in such investments where a decline in the fair value of equity instrument below its initial cost by 50% or more; or fair value below cost for one year or longer. The Group will consider other relevant factors, such as the price volatility, to determine whether an impairment loss should be recognised for the equity instrument if the decline in the fair value of an equity instrument is more than 20% (20% inclusive) but less than 50% of its initial investment cost; or

– other objective evidence indicating impairment of the financial asset.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

5 Financial instruments (continued)

5.6 Impairment of financial assets (continued)

(1) 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 or with unique characteristics of the credit risk 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.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

5 Financial instruments (continued)

5.6 Impairment of financial assets (continued)

(1) Loans and receivables (continued)

Homogeneous groups of loans not considered individually significant

For homogeneous groups of loans that are not considered individually significant, the Group adopts a flow rate methodology to collectively assess impairment losses. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions and judgement based on management's historical experience.

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

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

The collective impairment loss is assessed after taking into account:

– historical loss experience in portfolios of similar credit risk characteristics;

– the emergence period between a loss occurring and that loss being identified; and

– the current economic and credit environments and the 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.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

5 Financial instruments (continued)

5.6 Impairment of financial assets (continued)

(1) Loans and receivables (continued)

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

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provision for impairment losses.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

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

Rescheduled loans and receivables 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. Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to individual or collective impairment assessment, and the provision is calculated using the loan's original effective interest rate.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

5 Financial instruments (continued)

5.6 Impairment of financial assets (continued)

(2) Held-to-maturity investments

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

(3) Available-for-sale financial assets

If objective evidence of impairment exists for available for sale financial assets, the cumulative loss recognised in "Other comprehensive income" is reclassified from equity to the income statement and is measured as the difference between the acquisition cost (net of any principal repayment and amortisation and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the previously recognised impairment loss is reversed through the income statement.

With respect to equity instruments, impairment losses recognised in the income statement are not subsequently reversed through the income statement. If there is objective evidence that an impairment loss has been incurred on an unquoted equity investment that is not carried at fair value because its fair value cannot be reliably measured, the impairment loss is not reversed.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

5 Financial instruments (continued)

5.7 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow analysis and option pricing models, as appropriate. Credit risk valuation adjustments are applied to the Group's over-the-counter derivatives to reflect the credit risk of the counterparties and the Group respectively. They are dependent on expected future values of exposures for each counterparty and default probabilities, etc. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profit or loss on the date of transaction.

5.8 Preference share

Such preference shares or their components are initially recognised as financial assets, financial liabilities or equity instruments according to the terms and the economic substance combined with the definition of financial assets, financial liabilities and equity instruments.

When the issued preference shares contain equity and liability components, the Group follows the same accounting policy as for convertible bonds with equity components. For the issued preference shares which do not contain equity component, the Group follows the accounting policy as accounting for the convertible bonds only with liability component.

For the issued preference shares that should be classified as equity instruments, will be recognised as equity in actual amount received. Dividends payables are recognised as distribution of profits. Redemption before maturity will write down equity as redemption price.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

5 Financial instruments (continued)

5.9 Convertible bonds

Convertible bonds comprise of the liability and equity components. The liability component, representing the obligation to make fixed payments of principal and interest, is classified as liability and initially recognised at the fair value, calculated using the market interest rate of a similar liability that does not have an equity conversion option, and subsequently measured at amortised cost using the effective interest method. The equity component, representing an embedded option to convert the liability into ordinary shares, is initially recognised in "Equity" as the difference between the proceeds received from the convertible bonds as a whole and the amount of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds.

On conversion of the bonds into shares, the amount transferred to Share capital is calculated as the par value of the shares multiplied by the number of shares converted. The difference between the carrying value of the related component of the converted bonds and the amount transferred to Share capital is recognised in capital surplus under "Capital reserve".

5.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a current 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.

6 Precious metals

Precious metals that are not related to the Group's trading activities are initially measured at acquisition cost and subsequently measured at the lower of cost and net realisable value. Precious metals acquired by the Group for trading purposes are initially measured at fair value less costs to sell, and subsequent changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

7 Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

8 Investment in subsidiaries

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note II 2.

In the Bank's financial statements, investments in subsidiaries are accounted for using the cost method. An investment in a subsidiary acquired other than through a business combination is initially recognised at actual payment cost if the Bank acquires the investment by cash. The investment is stated at cost less impairment loss (Note II 14) in the statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investees as investment income.

9 Fixed assets

Fixed assets are assets held by the Group for operation and administration purposes with useful lives over one year.

The Group's fixed assets mainly comprise premises, electronic equipment, aircraft and construction in progress.

The assets purchased or constructed are initially measured at acquisition cost or deemed cost, as appropriate. Such initial cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in an asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of profit and loss during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each financial reporting date.

Gains and losses on disposals are determined by the difference between proceeds and carrying amount, after deduction of relevant taxes and expenses. These are included in the statement of profit and loss.

(Expressed in millions of Renminbi, unless otherwise stated)

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

9 Fixed assets (continued)

9.1 Premises, electronic equipment and others

Fixed assets are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

Asset category	Estimated useful life (years)	Estimated rate of residual value (%)	Depreciation rate (%)
Premises	30-35	3	2.8-3.2
Electronic equipment	3-5	3-5	19.0-32.3
Others	5-10	3-5	9.5-19.4

9.2 Aircraft

Aircraft are used in the Group's aircraft operating leasing business.

Aircraft are depreciated using the straight-line method over the expected useful life of 25 years, less the years in service at the time of purchase to an estimated residual value rate of 15%.

9.3 Construction in progress

Construction in progress consists of assets under construction or being installed and is stated at cost. Cost includes equipment cost, cost of construction, installation and other direct costs. Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use and the depreciation charge commences after such assets are transferred to property and equipment.

10 Leases

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

10.1 Operating lease charges

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognised as expenses in the accounting period in which they are incurred.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

10 Leases (continued)

10.2 Assets leased-out under finance lease

When the Group is a lessor under finance leases, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

Unearned finance income is allocated to each accounting period during the lease term using the effective interest method. At the end of the year, finance lease receivables, net of unearned finance income, are presented as finance lease receivables in the statements of financial position. The difference between the receivable and the present value of the receivable is recognised as unearned finance income.

The unguaranteed residual values are reviewed at least at each year end. Any excess of the carrying amount of the unguaranteed residual values over their estimated recoverable amounts is recognised as impairment loss. If there is an indication that there has been a change in the factors used to determine the provision for impairment losses and as a result the estimated recoverable amount of the unguaranteed residual values is greater than its carrying amount, the impairment loss recognised in prior periods is reversed. Reversals of impairment losses are recognised in profit or loss.

11 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, including computer software and other intangible assets.

Computer software and other intangible assets are stated at acquisition cost less accumulated amortisation and impairment. These costs are amortised on a straight-line basis over their estimated useful lives with the amortisation recognised in the statement of profit and loss.

The respective amortisation periods for intangible assets are as follows:

Asset category	Estimated useful lives (years)
Computer software	5
Others	5-10

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

12 Goodwill

Goodwill represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable net assets of the acquiree under the business combination involving entities not under common control. Goodwill is not amortised and is stated at cost less accumulated impairment loss (Note II 14). On disposal of the related cash-generating unit ("CGU") or group of CGUs, any attributable amount of purchased goodwill is written off and included in the calculation of the profit or loss on disposal.

13 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 initial cost of repossessed assets is measured at the lower of the net carrying amount of loans and advances and the fair value of the assets less costs to sell on the acquisition date. Repossessed assets are not depreciated or amortised. The impairment losses of initial measurement and subsequent revaluation are charged to the profit or loss.

14 Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the year based on the internal and external sources of information to determine whether there is any indication of impairment:

– fixed assets;

– construction in progress;

– intangible assets;

– goodwill;

– investment in subsidiaries.

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated. In addition, the Group estimates the recoverable amounts of goodwill at no later than each year-end, irrespective of whether there is any indication of impairment or not. Goodwill is allocated to the CGU, or group of CGUs, that is expected to benefit from the synergies of the combination for the purpose of impairment testing.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group's operations and how management makes decisions about continuing or disposing of the Group's assets.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

14 Provision for impairment losses on non-financial assets (continued)

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called "asset") is the higher of its fair value less costs to sell and its present value of expected future cash flows. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects expected future cash flows, the useful life and the discount rate specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss. A provision for an impairment loss of the asset is recognised accordingly.

For the purpose of goodwill impairment testing, goodwill arising from business combination is allocated to asset group since the acquisition date. If it cannot be reliably allocated to an asset group, it should be allocated to the relevant group of asset groups. The asset group or group of asset groups is expected to benefit from the synergies of the business combination and is not larger than a segment as defined by the Group.

If there is indication of impairment when testing for asset group or group of asset groups with goodwill for impairment, the Group shall first test the asset group or group of asset groups excluding goodwill for impairment and recognized the impairment loss in the income statement. Then the Group shall test the asset group or group of asset groups including goodwill for impairment, by comparing the carrying amount with its recoverable amount. Any impairment loss shall be allocated to reduce the carrying amount of any goodwill allocated to the asset group or group of asset groups first and then pro rata on the basis of carrying amount of each of the asset group or group of asset groups (excluding goodwill).

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

15 Employee benefits

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

15.1 Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

All eligible employees outside Mainland China participate in local defined contribution schemes. The Group contributes to these defined contribution schemes based on the requirements of the local regulatory bodies.

15.2 Post-employment benefits-defined contribution plans

Pursuant to the relevant laws and regulations of the PRC, the Group participated in a defined contribution basic pension insurance in the social insurance system established and managed by government organizations. The Group makes contributions to basic pension insurance plans based on the applicable benchmarks and rates stipulated by the government. Basic pension insurance contributions are recognised as part of the cost of the assets or charged to profit or loss as the related services are rendered by the employees.

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

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

15 Employee benefits (continued)

15.3 Termination benefits

Termination benefits are payable as a result of either the Group's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment. The Group recognise termination benefits in profit or loss at the earlier of:

– When the Group can no longer withdraw an offer of those benefits; and

– When the Group has a specific, formal restructure plan involving payment of termination benefits, and the plan has started or informed each affected party about the influence of the plan, therefore each party formed reasonable expectations.

15.4 Early retirement benefits

According to the Group's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Group. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when it is incurred.

16 Financial guarantees, provisions and contingent liabilities

16.1 Financial guarantees

Financial guarantees are contracts that require the issuer (the "guarantor") to make specified payments to reimburse the beneficiary of the guarantee ("holder") for a loss that the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. The fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income in other liabilities. The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. Provisions are recognised in the statements of financial position as stated in Note II 16.2 if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the carrying amount of the deferred income.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

16 Financial guarantees, provisions and contingent liabilities (continued)

16.2 Other provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows.

For a possible obligation resulting from a past transaction or event whose existence will only be confirmed by the occurrence or non-occurrence of uncertain future events or a present obligation resulting from a past transaction or event, where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the possible or present obligation is disclosed as a contingent liability.

17 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.

18 Income recognition

Income is the gross inflow of economic benefit in the periods arising in the course of the Group's ordinary activities when the inflows result in an increase in shareholder's equity, other than an increase relating to contributions from shareholders. Income is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the income and costs can be measured reliably and the following respective conditions are met:

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

18 Income recognition (continued)

18.1 Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Interest on the impaired assets is recognised using the rate of interest used to discount future cash flows ("unwinding of discount") for the purpose of measuring the related impairment loss.

18.2 Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without making a loan, the fee is recognised as fee and commission income upon its expiry.

18.3 Other income

Other income is recognised on an accrual basis.

19 Expenses recognition

19.1 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.

19.2 Other expenses

Other expenses are recognised on an accrual basis.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

20 Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

– when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

– when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

II SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

20 Income tax (continued)

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

21 Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised by the Group and declared after the end of the reporting period are not recognised as a liability at the end of the year but disclosed separately in the notes to the financial statements.

22 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.

23 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Any segments which do not comply with the reporting of segments by division of quantities are reported at consolidation level.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Areas susceptible to changes in critical estimates and judgements, which affect the carrying value of assets and liabilities, are set out below. It is possible that actual results may be materially different from the estimates and judgements referred below.

1 Impairment losses on loans and receivables, available-for-sale financial assets and held-to-maturity investments

The Group reviews portfolios of loans and receivables, available-for-sale financial assets and held-to-maturity investments periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for personal loans, available-for-sale financial assets and held-to-maturity investments. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for loans and receivables, and held-to-maturity investments that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgement based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

The objective evidence of impairment for available-for-sale financial assets includes significant or continual decline in fair value of investment. When deciding whether there is significant or continual decline in fair value, the Group will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

2 Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. 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.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

3 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.

4 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.

5 Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant 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.

6 Depreciation and amortisation

Fixed assets and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and 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.

III CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

7 Judgement in assessing control over structured entities

The Group is involved with structured entities in its normal business course, and the Group determines whether or not to consolidate those structured entities depending on whether the Group has control over them. When assessing control over structured entities, the Group takes consideration of power arising from rights it directly owns or indirectly owns through subsidiaries (including controlled structured entities), variable returns, and link between power and returns.

The variable returns the Group is exposed to from its involvement with structured entities include decision makers' remuneration (such as management fees and performance-related fees), as well as other benefits (such as investment income, remuneration and exposure to loss from providing credit or liquidity support, and variable returns from transactions with structured entities). When assessing whether it controls a structured entity, the Group not only considers applicable legal or regulatory requirements, and contractual agreements, but also other circumstances where the Group may have obligation to absorb any loss of the structured entity.

The Group reassesses whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the relevant elements of control.

IV TAXATION

The Group's main applicable taxes and tax rates are as follows:

(a) Value-added tax

Value-added tax is charged at 6% or 17% on taxable added value.

(b) City construction tax

City construction tax is calculated as 1%-7% of business tax.

(c) Education surcharge

Education surcharge is calculated as 3% of business tax.

(d) Income tax

The income tax is calculated on taxable income. The statutory income tax rate of the Bank and domestic subsidiaries is 25%. The statutory income tax rate of CEB International Investment Co., Ltd., the Hong Kong subsidiary, is 16.5%. The statutory income tax rate of China Everbright Bank Company Limited (Europe) ("China Everbright S A.")., the Luxembourg subsidiary, is 19%.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Net interest income

	Note	2017	2016
Interest income arising from			
Deposits with the central bank		5,263	5,306
Deposits with banks and other financial institutions		4,016	4,610
Placements with banks and other financial institutions		4,688	4,412
Loans and advances to customers	(a)		
– Corporate loans and advances		53,463	47,884
– Personal loans and advances		32,365	27,057
– Discounted bills		1,113	2,761
Finance lease receivables		2,729	2,012
Financial assets held under resale agreements		2,315	2,848
Investments		54,391	46,560
Sub-total		160,343	143,450
Interest expenses arising from			
Due to the central bank		6,695	2,223
Deposits from banks and other financial institutions		25,528	19,334
Placements from banks and other financial institutions		3,257	2,082
Deposits from customers			
– Corporate customers		25,193	25,867
– Individual customers		3,639	4,064
– Structured deposits from corporate customers		8,513	6,168
– Structured deposits from individual customers		4,873	5,352
Financial assets sold under repurchase agreements		1,113	1,773
Debt securities issued	(b)	20,582	11,299
Sub-total		99,393	78,162
Net interest income		60,950	65,288

Note:

(a) *The interest income arising from impaired financial assets in 2017 amounted to RMB1,015 million (2016: RMB876 million).*

(b) *Interest expense on financial liabilities with maturity over five years mainly represented the interest expense on debt securities issued.*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2 Net fee and commission income

	2017	2016
Fee and commission income		
Bank card service fees	20,372	14,212
Wealth management service fees	3,400	7,472
Agency services fees	2,665	1,854
Custody and other fiduciary business fees	1,683	1,614
Underwriting and advisory fees	1,604	1,442
Settlement and clearing fees	1,066	934
Acceptance and guarantee fees	861	828
Others	1,374	1,576
Sub-total	33,025	29,932
Fee and commission expense		
Bank card transaction fees	1,451	1,320
Settlement and clearing fees	108	97
Others	692	403
Sub-total	2,251	1,820
Net fee and commission income	30,774	28,112

3 Net trading (loss)/gains

	2017	2016
Trading financial instruments		
– Derivatives	(2,601)	339
– Debt securities	(279)	(148)
Sub-total	(2,880)	191
Financial instruments designated at fair value through profit or loss	(14)	(4)
Others	143	36
Total	(2,751)	223

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4 Net losses arising from investment securities

	2017	2016
Net gains on disposal of available-for-sale financial assets	163	331
Net revaluation losses reclassified from other comprehensive income on disposal	(360)	(592)
Net gains on disposal of held-to-maturity investments	4	–
Total	(193)	(261)

5 Operating expenses

	Note	2017	2016
Staff costs			
– Salaries and bonuses		11,007	10,642
– Pension and annuity		1,681	1,569
– Housing allowances		701	634
– Staff welfares		365	336
– Supplementary retirement benefits		89	251
– Others		1,836	1,739
Sub-total		15,679	15,171
Premises and equipment expenses			
– Rental and property management expenses		2,692	2,558
– Depreciation of fixed assets		1,417	1,461
– Amortisation of other long-term assets		418	428
– Amortisation of intangible assets		301	293
Sub-total		4,828	4,740
Tax and surcharges		1,025	2,885
Other general and administrative expenses	(a)	9,270	7,458
Total		30,802	30,254

Note:

(a) *Auditors' remuneration for the year ended 31 December 2017 was RMB8.30 million (2016: RMB6.83 million).*

Notes to the Consolidated Financial Statements

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

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6 Directors' and supervisors' emoluments

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting period are as follows:

		2017							
				Discretionary bonus					
	Note	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Sub-total RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Executive directors									
Zhang Jinliang		–	439	–	–	439	38	114	591
Ma Teng		–	1,142	–	–	1,142	40	114	1,296
Li Jie		–	1,142	–	–	1,142	40	114	1,296
Non-executive directors									
Li Xiaopeng	(i)	–	–	–	–	–	–	–	–
Gao Yunlong		–	–	–	–	–	–	–	–
Zhang Shude		–	–	–	–	–	–	–	–
Li Huaqiang		–	–	–	–	–	–	–	–
Zhao Wei		–	–	–	–	–	–	–	–
Fu Dong	(i)	–	–	–	–	–	–	–	–
Cai Yunge	(i)	–	–	–	–	–	–	–	–
Independent non-executive directors									
Fok Oi Ling		370	–	–	–	370	–	–	370
Qiao Zhimin		390	–	–	–	390	–	–	390
Xie Rong		370	–	–	–	370	–	–	370
Feng Lun		360	–	–	–	360	–	–	360
Wang Liguo	(ii)	340	–	–	–	340	–	–	340
Xu Hongcai		–	–	–	–	–	–	–	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting period are as follows: (continued)

		2017							
				Discretionary bonus					
	Note	Fees RMB'000	Salaries RMB'000	Paid RMB'000	Payable RMB'000	Sub-total RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Supervisors									
Li Xin		–	1,155	–	–	1,155	40	114	1,309
Yin Lianchen		–	–	–	–	–	–	–	–
Wu Junhao		–	–	–	–	–	–	–	–
Yu Erniu		275	–	–	–	275	–	–	275
Wu Gaolian		275	–	–	–	275	–	–	275
Wang Zhe		280	–	–	–	280	–	–	280
Sun Xinhong	(iii)	–	395	782	–	1,177	–	64	1,241
Jiang Ou	(iii)	–	307	517	–	824	19	68	911
Huang Dan	(iii)	–	292	824	–	1,116	23	68	1,207
Former non-executive director									
Wu Gang	(i)	–	–	–	–	–	–	–	–
Tang Shuangning	(i)	–	–	–	–	–	–	–	–
Former supervisors									
Mu Huijun	(iii)	–	191	–	–	191	7	18	216
Liu Yan	(iii)	–	252	586	–	838	21	55	914
Ye Donghai	(iii)	–	586	1,049	–	1,635	35	94	1,764
Deng Ruilin	(iii)	–	–	–	–	–	–	–	–
		2,660	5,901	3,758	–	12,319	263	823	13,405

Notes to the Consolidated Financial Statements

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

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting period are as follows:

		2016							
				Discretionary bonus					
	Note	Fees	Salaries	Paid	Payable	Sub-total	Contributions to social pension schemes	Other welfares	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors									
Zhang Jinliang		–	339	–	–	339	34	97	470
Ma Teng		–	1,150	–	–	1,150	40	106	1,296
Li Jie		–	1,150	–	–	1,150	40	106	1,296
Non-executive directors									
Tang Shuangning		–	–	–	–	–	–	–	–
Gao Yunlong		–	–	–	–	–	–	–	–
Zhang Shude		–	–	–	–	–	–	–	–
Li Huaqiang		–	–	–	–	–	–	–	–
Zhao Wei		–	–	–	–	–	–	–	–
Wu Gang		–	–	–	–	–	–	–	–
Independent non-executive directors									
Fok Oi Ling		370	–	–	–	370	–	–	370
Qiao Zhimin		390	–	–	–	390	–	–	390
Xie Rong		370	–	–	–	370	–	–	370
Xu Hongcai		–	–	–	–	–	–	–	–
Feng Lun		350	–	–	–	350	–	–	350
Zhang Xinze		–	–	–	–	–	–	–	–
Supervisors									
Li Xin		–	1,163	–	–	1,163	40	106	1,309
Mu Huijun		–	1,150	–	–	1,150	40	106	1,296
Yin Lianchen		–	–	–	–	–	–	–	–
Wu Junhao		–	–	–	–	–	–	–	–
Yu Erniu		300	–	–	–	300	–	–	300
Wu Gaolian		150	–	–	–	150	–	–	150
Deng Ruilin		73	–	–	–	73	–	–	73
Wang Zhe		21	–	–	–	21	–	–	21
Ye Donghai		–	703	1,231	–	1,934	42	105	2,081
Liu Yan		–	412	564	–	976	21	55	1,052

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6 Directors' and supervisors' emoluments (continued)

The emoluments before individual income tax in respect of the directors and supervisors who held office during the reporting period are as follows: (continued)

	Note	2016 Fees RMB'000	Salaries RMB'000	Discretionary bonus Paid RMB'000	Discretionary bonus Payable RMB'000	Sub-total RMB'000	Contributions to social pension schemes RMB'000	Other welfares RMB'000	Total RMB'000
Former executive directors									
Zhao Huan		–	–	–	–	–	–	–	–
Former non-executive director									
Wu Jian		–	–	–	–	–	–	–	–
Wang Shumin		–	–	–	–	–	–	–	–
Wu Gaolian		–	–	–	–	–	–	–	–
Yang Jigui		–	–	–	–	–	–	–	–
Liu Jun		–	–	–	–	–	–	–	–
Former supervisors									
Ma Ning		–	506	1,057	–	1,563	21	51	1,635
James Parks Stent		150	–	–	–	150	–	–	150
Chen Yu		–	340	702	–	1,042	21	51	1,114
		2,174	6,913	3,554	–	12,641	299	783	13,723

Note:

(i) *Mr. Li Xiaopeng's appointment as the Chairman of the board of directors has been approved by CBRC on 16 March, 2018.*

Mr. Fu Dong was elected as non-executive director of the Bank and the appointment was approved by CBRC on 15 March, 2018. Mr. Cai Yunge was elected as non-executive director of the Bank and the appointment was approved by CBRC on 9 May, 2017.

Due to the transfer of the work, Mr Wu Gang resigned from the position of non-executive director of the board of directors on 16 January 2017.

Due to age, Mr. Tang shuangning resigned from the position of chairman and non-executive director of the bank on 27 December, 2017.

(ii) *Mr. Wang Liguo was elected as independent director of the Bank and the appointment was approved by CBRC on 10 January 2017.*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6 Directors' and supervisors' emoluments (continued)

Note: (continued)

(iii) *Mr. Sun Xinhong, Mr. Jiang Ou and Ms. Huang Dan were selected as the supervisors of the Bank in Workers' congress 12 June, 2017.*

Mr. Mou Huijun ceased to serve as the supervisor of the Bank on 1 March 2017. Mrs. Liu Yan ceased to serve as the supervisor of the Bank on 12 June 2017. Mr. Ye Donghai ceased to serve as the supervisor of the Bank on 16 October 2017. Mr. Deng Ruilin ceased to serve as the supervisor of the Bank on 20 October 2017.

(iv) *The total compensation package for these directors and supervisors for the year ended 31 December 2017 has not yet been finalised in accordance with regulations of the PRC relevant authorities. The amount of the compensation not provided for is not expected to have significant impact on the Group's and the Bank's financial statements for the year ended 31 December 2017.*

The above directors' and supervisors' emoluments for the year ended 31 December 2017 were calculated in accordance with their actual tenure.

7 Individuals with highest emoluments

	2017 RMB'000	2016 RMB'000
Salaries and other emoluments	2,712	3,461
Discretionary bonuses	20,378	17,662
Contributions to pension schemes	790	219
Others	679	404
Total	24,559	21,746

None of the five individuals with the highest emoluments are directors or supervisors. The number of these individuals whose emoluments before individual income tax are within the following bands is set out below:

	2017	2016
RMB3,000,001-3,500,000	–	–
RMB3,500,001-4,000,000	–	–
RMB4,000,001-4,500,000	2	4
RMB4,500,001-5,000,000	2	1
RMB5,000,001-5,500,000	–	–
RMB5,500,001-6,000,000	–	–
RMB6,000,001-6,500,000	–	–
RMB6,500,001-7,000,000	1	–

None of these individuals received any inducements or compensation for loss of office, or waived any emoluments during the reporting period.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8 Impairment losses on assets

	2017	2016
Loans and advances to customers	19,700	22,111
Debt securities classified as receivables	391	330
Available-for-sale financial assets	207	574
Finance lease receivables	92	572
Held-to-maturity investments	(11)	102
Others	191	242
Total	20,570	23,931

9 Income tax

(a) Income tax:

	Note V	2017	2016
Current tax		10,393	10,131
Deferred tax	26(b)	(1,206)	(556)
Adjustments for prior year	9(b)	(152)	217
Total		9,035	9,792

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2017	2016
Profit before tax		40,646	40,180
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		10,162	10,045
Effect of different tax rates applied by certain subsidiaries		1	3
Non-deductible expenses			
– Staff costs		4	5
– Impairment losses on assets		1,853	1,324
– Others		283	79
Sub-total		2,140	1,408
Non-taxable income	(i)	(3,116)	(1,881)
Sub-total		9,187	9,575
Adjustments for prior year		(152)	217
Income tax		9,035	9,792

Note:

(i) Tax free income mainly includes interest income of PRC treasury bonds and dividend of funds.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10 Basic and diluted earnings per ordinary share

Basic earnings per share was computed by dividing the profit attributable to the ordinary shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2017	2016
Profit attributable to equity holders of the Bank	31,545	30,329
Less: dividends on preference shares declared	1,450	1,060
Profit attributable to ordinary shareholders of the Bank	30,095	29,269
Weighted average number of ordinary shares in issue (in million shares)	46,679	46,679
Basic earnings per share (in RMB per share)	0.64	0.63

Weighted average number of ordinary shares in issue (in million shares)

	2017	2016
Issued ordinary shares as at 1 January	46,679	46,679
Add: weighted average number of shares from conversion of convertible bonds	–	–
Weighted average number of ordinary shares in issue	46,679	46,679

Diluted earnings per share was computed by dividing the adjusted profit attributable to the ordinary shareholders of the Bank based on assuming conversion of all dilutive potential shares for the period by the adjusted weighted average number of ordinary shares in issue. The Bank had convertible bonds as dilutive potential ordinary shares.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10 Basic and diluted earnings per ordinary share (continued)

	2017	2016
Profit attributable to ordinary shareholders of the Bank	30,095	29,269
Add: interest expense on convertible bonds, net of tax	662	–
Profit used to determine diluted earnings per share	30,757	29,269
Weighted average number of ordinary shares in issue (in million shares)	46,679	46,679
Add: weighted average number of ordinary shares assuming conversion of all dilutive shares (in million shares)	5,220	–
Weighted average number of ordinary shares for diluted earnings per share (in million shares)	51,899	46,679
Diluted earnings per share (in RMB per share)	0.59	0.63

11 Cash and deposits with the central bank

	Note	31 December 2017	31 December 2016
Cash on hand		5,584	6,667
Deposits with the central bank			
– Statutory deposit reserves	(a)	306,762	303,772
– Surplus deposit reserves	(b)	37,035	66,255
– Foreign currency risk reserves	(c)	880	1,433
– Fiscal deposits		3,442	3,493
Sub-total		348,119	374,953
Total		353,703	381,620

Note:

(a) *The Group places statutory deposit reserves with the People's Bank of China (the "PBOC") in accordance with relevant regulations. As at the end of the year, the statutory deposit reserve ratios applicable to the Bank were as follows:*

	31 December 2017	*31 December 2016*
Reserve ratio for RMB deposits	*14.5%*	*15.0%*
Reserve ratio for foreign currency deposits	*5.0%*	*5.0%*

The statutory deposit reserves are not available for the Group's daily business.

(b) *The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.*

(c) *The Group places foreign currency risk reserves with the PBOC in accordance with relevant regulations. As at 31 December 2017, the foreign currency risk reserve ratio was 0% (As at 31 December 2016: 20%).*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12 Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2017	31 December 2016
Deposits in mainland China		
– Banks	35,201	224,635
– Other financial institutions	321	278
Sub-total	35,522	224,913
Deposits outside mainland China		
– Banks	9,264	7,754
Total	44,786	232,667
Less: Provision for impairment losses	(32)	(37)
Net balances	44,754	232,630

13 Placements with banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2017	31 December 2016
Placements in mainland China		
– Banks	23,175	10,874
– Other financial institutions	109,455	97,520
Sub-total	132,630	108,394
Placements outside mainland China		
– Banks	16,200	17,914
Total	148,830	126,308
Less: Provision for impairment losses	(14)	(3)
Net balances	148,816	126,305

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14 Financial assets at fair value through profit or loss

	Note	31 December 2017	31 December 2016
Debt securities held for trading	(a)	24,185	7,743
Financial assets designated at fair value through profit or loss	(b)	11	48
Total		24,196	7,791

(a) Debt securities held for trading

	Note	31 December 2017	31 December 2016
Issued by the following governments or institutions:			
In mainland China			
– Government		1,110	70
– Banks and other financial institutions		786	1,793
– Other institutions	(i)	21,020	5,395
Sub-total		22,916	7,258
Outside mainland China			
– Government		128	20
– Banks and other financial institutions		125	68
– Other institutions		1,016	397
Sub-total		1,269	485
Total	(ii)	24,185	7,743
Listed	(iii)	2,017	534
– of which listed in Hong Kong		1,662	445
Unlisted		22,168	7,209
Total		24,185	7,743

Note:

(i) Debt securities issued by other institutions in mainland China mainly represented debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.

(ii) As at the end of the year, part of the debt securities held for trading were pledged for time deposits (see Note V 28(a)).

(iii) Debt securities traded on the stock exchange markets.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14 Financial assets at fair value through profit or loss (continued)

(b) Financial assets designated at fair value through profit or loss

	31 December 2017	31 December 2016
Fixed interest rate personal mortgage loans	11	48

For fixed interest rate personal mortgage loans, the Group used interest rate swap to manage the associated interest rate risk. The changes in fair value during the year, the accumulated changes and the maximum credit risk exposure attributable to credit risk were immaterial.

15 Derivatives

Derivative financial instruments included forward, swap and option contracts undertaken by the Group in foreign currency and interest rate markets. The Group acts as an intermediary between a wide range of customers for structuring deals to provide risk management solutions to meet customer needs. These positions are actively managed through entering into back-to-back deals with external parties to ensure the Group's net exposures are within acceptable risk level. The Group also uses derivative financial instruments to manage its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivative financial instruments of the Group and their corresponding fair values at the end of the year. The notional amounts of the derivatives indicate the volume of transactions outstanding at the end of the year, they do not represent exposure at risk.

(a) Analysed by nature of contract

	31 December 2017		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	317,001	430	(373)
– Interest rate futures	1,633	8	–
Currency derivatives			
– Foreign exchange forward	5,185	109	(73)
– Foreign exchange swap and cross-currency interest rate swaps	413,183	3,906	(6,100)
– Foreign exchange option	5,289	60	(6)
Total	742,291	4,513	(6,552)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15 Derivatives (continued)

(a) Analysed by nature of contract (continued)

	31 December 2016		
	Notional amount	Fair value	
		Assets	Liabilities
Interest rate derivatives			
– Interest rate swap	92,013	413	(356)
– Interest rate futures	500	1	–
Currency derivatives			
– Foreign exchange forward	10,329	140	(160)
– Foreign exchange swap and cross-currency interest rate swaps	346,885	4,394	(3,852)
– Foreign exchange option	49	2	–
Total	449,776	4,950	(4,368)

(b) Analysed by credit risk-weighted amounts

	31 December 2017	31 December 2016
Counterparty default risk-weighted assets		
– Interest rate derivatives	83	24
– Currency derivatives	946	871
Credit value adjustment	254	432
Total	1,283	1,327

The credit risk weighted amounts represent the counterparty credit risk associated with derivative transactions, which are calculated with reference to the guidelines issued by the CBRC in 2012.

As at 31 December 2017, the Group did not hold any derivatives used as hedge instruments in accounting treatment.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16 Financial assets held under resale agreements

(a) Analysed by type and location of counterparty

	31 December 2017	31 December 2016
In mainland China		
– Banks	30,740	42,646
– Other financial institutions	60,701	24,354
Total	91,441	67,000

(b) Analysed by type of security held

	31 December 2017	31 December 2016
Bonds		
– Government bonds	26,984	21,927
– Other debt securities	64,204	45,073
Sub-total	91,188	67,000
Bank acceptances	253	–
Total	91,441	67,000

17 Interests receivable

	31 December 2017	31 December 2016
Interests receivable from investments	20,839	17,654
Interests receivable from loans and advances to customers	6,521	5,251
Interests receivable from deposits and placements with banks and other financial institutions	550	1,875
Other interests receivable	718	596
Total	28,628	25,376
Less: Provision for impairment losses	(52)	(37)
Net balances	28,576	25,339

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 Loans and advances to customers

(a) Analysed by nature

	31 December 2017	31 December 2016
Corporate loans and advances	1,179,663	1,075,974
Personal loans and advances		
– Personal housing mortgage loans	367,665	290,114
– Personal business loans	125,558	132,376
– Personal consumption loans	36,165	28,315
– Credit cards	300,616	212,326
Sub-total	830,004	663,131
Discounted bills	22,389	56,173
Gross loans and advances to customers	2,032,056	1,795,278
Less: Provision for impairment losses		
– Individually assessed	(14,219)	(11,285)
– Collectively assessed	(37,019)	(32,349)
Total provision for impairment losses	(51,238)	(43,634)
Net loans and advances to customers	1,980,818	1,751,644

At financial reporting date, part of the above loans and advances to customers was pledged for repurchase agreements, see Note V 28(a).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 Loans and advances to customers (continued)

(b) Analysed by economic sector

	31 December 2017		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	241,125	11.87%	73,970
Water, environment and public utility management	209,223	10.30%	104,502
Real estate	142,010	6.99%	87,858
Leasing and commercial services	126,451	6.22%	51,066
Wholesale and retail trade	109,268	5.38%	40,566
Transportation, storage and postal services	91,949	4.52%	39,566
Construction	62,984	3.10%	23,547
Finance	49,780	2.45%	2,054
Production and supply of power, gas and water	42,237	2.08%	9,783
Mining	21,831	1.07%	4,019
Others	82,805	4.07%	39,868
Sub-total of corporate loans and advances	1,179,663	58.05%	476,799
Personal loans and advances	830,004	40.85%	494,936
Discounted bills	22,389	1.10%	17,075
Gross loans and advances to customers	2,032,056	100.00%	988,810
Less: provision for impairment losses			
– Individually assessed	(14,219)		
– Collectively assessed	(37,019)		
Total provision for impairment losses	(51,238)		
Net loans and advances to customers	1,980,818		

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

	31 December 2016		
	Amount	Percentage	Loans and advances secured by collaterals
Manufacturing	235,514	13.12%	69,758
Water, environment and public utility management	160,657	8.95%	78,141
Real estate	126,717	7.06%	91,907
Wholesale and retail trade	112,165	6.25%	43,138
Leasing and commercial services	95,554	5.32%	46,694
Transportation, storage and postal services	92,260	5.14%	37,362
Construction	62,480	3.48%	20,526
Finance	51,275	2.86%	2,784
Production and supply of power, gas and water	34,201	1.90%	7,286
Mining	28,473	1.59%	4,755
Others	76,678	4.26%	36,509
Sub-total of corporate loans and advances	1,075,974	59.93%	438,860
Personal loans and advances	663,131	36.94%	426,392
Discounted bills	56,173	3.13%	47,270
Gross loans and advances to customers	1,795,278	100.00%	912,522
Less: Provision for impairment losses			
– Individually assessed	(11,285)		
– Collectively assessed	(32,349)		
Total provision for impairment losses	(43,634)		
Net loans and advances to customers	1,751,644		

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 Loans and advances to customers (continued)

(b) Analysed by economic sector (continued)

As at the end of the year and during the period, detailed information of the impaired loans and advances to customers as well as the corresponding provision for impairment losses in respect of each economic sector which constitute 10% or more of gross loans and advances to customers are as follows:

	31 December 2017				
	Individually assessed Impaired loans and advances	Collectively assessed provision for impairment losses	Impairment provision for impairment losses	charged during the year	Written-off during the year
Manufacturing	11,111	(7,200)	(7,287)	5,575	1,884
Water, environment and public utility management	1	–	(2,399)	580	–

	31 December 2016				
	Individually assessed Impaired loans and advances	Collectively assessed provision for impairment losses	Impairment provision for impairment losses	charged during the year	Written-off during the year
Manufacturing	10,310	(5,509)	(7,303)	8,900	1,270

(c) Analysed by type of collateral

	31 December 2017	31 December 2016
Unsecured loans	591,866	491,329
Guaranteed loans	451,380	391,427
Secured loans		
– By tangible assets other than monetary assets	754,180	695,272
– By monetary assets	234,630	217,250
Gross loans and advances to customers	2,032,056	1,795,278
Less: Provision for impairment losses		
– Individually assessed	(14,219)	(11,285)
– Collectively assessed	(37,019)	(32,349)
Total provision for impairment losses	(51,238)	(43,634)
Net loans and advances to customers	1,980,818	1,751,644

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 Loans and advances to customers (continued)

(d) Overdue loans analysed by overdue period

	31 December 2017				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	5,464	5,852	733	84	12,133
Guaranteed loans	5,077	4,891	4,497	1,236	15,701
Secured loans					
– By tangible assets other than monetary assets	5,452	5,263	7,363	716	18,794
– By monetary assets	488	1,014	1,820	25	3,347
Total	16,481	17,020	14,413	2,061	49,975
As a percentage of gross loans and advances to customers	0.81%	0.84%	0.71%	0.10%	2.46%

	31 December 2016				
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	Total
Unsecured loans	4,987	3,684	1,086	39	9,796
Guaranteed loans	4,469	7,051	5,122	522	17,164
Secured loans					
– By tangible assets other than monetary assets	6,141	6,194	6,596	370	19,301
– By monetary assets	228	3,951	1,079	21	5,279
Total	15,825	20,880	13,883	952	51,540
As a percentage of gross loans and advances to customers	0.88%	1.17%	0.77%	0.05%	2.87%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 Loans and advances to customers (continued)

(e) Loans and advances and provision for impairment losses

	31 December 2017				
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances: for which provision are collectively assessed	(Note (ii)) Impaired loans and advances: for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	1,999,664	9,607	22,785	2,032,056	1.59%
Less: Provision for impairment losses	(30,768)	(6,251)	(14,219)	(51,238)	
Net loans and advances to customers	1,968,896	3,356	8,566	1,980,818	

	31 December 2016				
	(Note (i)) Loans and advances for which provision are collectively assessed	(Note (ii)) Impaired loans and advances: for which provision are collectively assessed	(Note (ii)) Impaired loans and advances: for which provision are individually assessed	Total	Gross impaired loans and advances as a percentage of gross loans and advances
Gross loans and advances to customers	1,766,576	7,290	21,412	1,795,278	1.60%
Less: Provision for impairment losses	(28,591)	(3,758)	(11,285)	(43,634)	
Net loans and advances to customers	1,737,985	3,532	10,127	1,751,644	

Note:

(i) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.

(ii) Identified impaired loans and advances are loans for which objective evidence of impairment exists and which have been identified as bearing an impairment loss and assessed either:

- *Individually (including corporate loans and advances which are impaired); or*
- *Collectively (including personal loans and advances which are impaired).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 Loans and advances to customers (continued)

(f) Movements of provision for impairment losses

	31 December 2017			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances which are collectively assessed	Provision for impaired loans and advances which are individually assessed	Total
As at 1 January	(28,591)	(3,758)	(11,285)	(43,634)
Charge for the year	(2,392)	(4,458)	(14,087)	(20,937)
Release for the year	215	–	1,022	1,237
Recoveries	–	(638)	(246)	(884)
Unwinding of discount	–	–	1,015	1,015
Disposal	–	–	5,958	5,958
Write-offs	–	2,603	3,404	6,007
As at 31 December	(30,768)	(6,251)	(14,219)	(51,238)

	31 December 2016			
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances which are collectively assessed	Provision for impaired loans and advances which are individually assessed	Total
As at 1 January	(25,667)	(2,369)	(10,083)	(38,119)
Charge for the year	(2,924)	(3,903)	(15,971)	(22,798)
Release for the year	–	–	687	687
Recoveries	–	(489)	(258)	(747)
Unwinding of discount	–	–	876	876
Disposal	–	–	10,835	10,835
Write-offs	–	3,003	2,629	5,632
As at 31 December	(28,591)	(3,758)	(11,285)	(43,634)

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 Loans and advances to customers (continued)

(g) Analysed by geographical sector

	31 December 2017		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	382,262	18.80%	189,936
Bohai Rim	322,013	15.84%	172,218
Central	314,516	15.48%	200,308
Western	301,306	14.83%	174,450
Pearl River Delta	235,902	11.61%	166,276
Northeastern	113,724	5.60%	75,007
Overseas	59,033	2.91%	7,955
Head Office	303,300	14.93%	2,660
Gross loans and advances to customers	2,032,056	100.00%	988,810

	31 December 2016		
	Loan balance	Percentage	Loans and advances secured by collaterals
Yangtze River Delta	352,631	19.64%	183,215
Bohai Rim	303,996	16.93%	178,952
Central	298,715	16.64%	147,435
Western	260,592	14.52%	163,907
Pearl River Delta	213,533	11.89%	157,849
Northeastern	109,300	6.09%	71,241
Overseas	44,175	2.46%	9,923
Head Office	212,336	11.83%	–
Gross loans and advances to customers	1,795,278	100.00%	912,522

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 Loans and advances to customers (continued)

(g) Analysed by geographical sector (continued)

As at the end of the year, detailed information of the impaired loans and advances to customers as well as the corresponding impairment provision in respect of geographic sectors which constitute 10% or more of gross loans and advances to customers are as follows:

	31 December 2017		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Bohai Rim	5,281	(2,588)	(6,829)
Pearl River Delta	5,160	(2,304)	(4,533)
Yangtze River Delta	5,006	(2,947)	(6,992)
Western	4,727	(2,391)	(5,204)
Central	4,483	(2,206)	(5,076)

	31 December 2016		
	Impaired loans and advances	Individually assessed provision for impairment losses	Collectively assessed provision for impairment losses
Yangtze River Delta	6,520	(3,299)	(6,184)
Pearl River Delta	4,663	(2,036)	(4,987)
Central	4,654	(1,901)	(4,561)
Western	4,599	(1,901)	(5,072)
Bohai Rim	3,666	(1,699)	(6,024)

The definitions of the regional distributions are set out in Note V 50(b).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18 Loans and advances to customers (continued)

(h) Rescheduled loans and advances to customers

	31 December 2017	31 December 2016
Rescheduled loans and advances to customers	19,685	17,380
Of which: Rescheduled loans and advances to customers overdue more than 90 days	971	1,240

19 Finance lease receivables

	31 December 2017	31 December 2016
Minimum finance lease receivables	65,555	64,244
Less: unearned finance lease income	(7,826)	(7,175)
Present value of minimum lease receivable	57,729	57,069
Less: impairment losses		
Of which: Individually assessed	(533)	(403)
Collectively assessed	(832)	(1,106)
Net balance	56,364	55,560

Minimum finance lease receivables analysed by remaining period is listed as follows:

	31 December 2017	31 December 2016
Less than 1 year (inclusive)	18,401	18,053
1 year to 2 years (inclusive)	12,956	12,616
2 year to 3 years (inclusive)	10,924	10,462
More than 3 years	23,274	23,113
Total	65,555	64,244

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20 Available-for-sale financial assets

	Note	31 December 2017	31 December 2016
Available-for-sale debt investments	(a)	145,331	237,788
Available-for-sale equity investments	(b)	899	549
Available-for-sale fund investments and others	(c)	268,317	186,794
Total		414,547	425,131
Listed	(d)	17,961	37,391
– of which in Hong Kong		14,741	7,331
Unlisted		396,586	387,740
Total		414,547	425,131

(a) Available-for-sale debt investments

All available-for-sale debt investments were stated at fair value and issued by the following governments and institutions:

	Note	31 December 2017	31 December 2016
In mainland China			
– Government		47,624	75,981
– Banks and other financial institutions	(i)	17,323	51,688
– Other institutions	(ii)	67,837	101,600
Sub-total		132,784	229,269
Outside mainland China			
– Government		65	88
– Banks and other financial institutions		2,340	2,458
– Other institutions		10,142	5,973
Sub-total		12,547	8,519
Total	(iii)	145,331	237,788

Note:

(i) Debt securities issued by banks and other financial institutions mainly represent debt securities and interbank deposits issued by banks and other financial institutions in the mainland China.

(ii) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.

(iii) As at the end of the year, part of the available-for-sale financial assets were pledged for repurchase agreements and derivative contracts (see Note V 28(a)).

(iv) As at the end of the year, the allowance for impairment losses of available-for-sale debt investments was RMB952 million (as at 31 December 2016: RMB745 million).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20 Available-for-sale financial assets (continued)

(b) Available-for-sale equity investments

	Note	31 December 2017	31 December 2016
At cost			
As at 1 January		401	401
Additions for the year		394	–
Reductions for the year		(5)	–
As at the end of the year		790	401
Less: Provision for impairment losses		(1)	(1)
Sub-total	(i)	789	400
At fair value		110	149
Total		899	549

Note:

(i) Available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any allowance for impairment losses. There is no active market for these investments, and the Group intends to dispose of them when the opportunity is suitable.

(c) Available-for-sale fund investments and others

	31 December 2017	31 December 2016
Measured as fair value		
In mainland China – Banks and other financial institutions	268,317	186,794
Total	268,317	186,794

(d) Listed debt investments are debt securities traded on the stock exchange markets only.

(e) Movements of allowance for impairment losses of available-for-sale financial assets during the year are as follows:

	Availabe-for-sale debt investments	Availabe-for-sale equty investments	Total
At 1 January 2016	171	1	172
Charge for the year	574	–	574
At 31 December 2016 and 1 January 2017	745	1	746
Charge for the year	207	–	207
At 31 December 2017	952	1	953

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21 Held-to-maturity investments

Debt securities analysed by type and location:

	Note	31 December 2017	31 December 2016
In mainland China			
– Government		257,283	187,965
– Banks and other financial institutions		71,603	56,567
– Other institutions	(a)	11,340	8,576
Sub-total		340,226	253,108
Outside mainland China			
– Government		166	410
– Banks and other financial institutions		1,612	1,353
– Other institutions		2,714	2,741
Sub-total		4,492	4,504
Total	(b)	344,718	257,612
Less: Provision for impairment losses		(101)	(112)
Net balances		344,617	257,500
Listed	(c)	4,708	4,439
– of which in Hong Kong		2,538	2,722
Unlisted		339,909	253,061
Net balances		344,617	257,500
Fair value		335,894	258,891

Note:

(a) Debt securities issued by other institutions mainly represent debt securities issued by state-owned enterprises and joint stock enterprises in mainland China.

(b) As at the end of the year, part of the held-to-maturity investments were pledged as securities for repurchase agreements, time deposits transactions and derivative contracts (see Note V 28(a)).

(c) Debt securities traded on the stock exchange markets.

(d) The Group disposed a notional amount of RMB650 million prior to their maturity dates in 2017, which account for 0.19% of the portfolio before disposal and did not dispose any held-to-maturity debt investments in 2016.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22 Debt securities classified as receivables

	Note	31 December 2017	31 December 2016
Wealth management products issued by financial institution	(a)	5,096	150,460
Beneficiary interests in trust and other plans	(b)	509,276	476,623
Others		2,326	2,326
Total		516,698	629,409
Less: Provision for impairment losses		(2,122)	(1,731)
Net balances		514,576	627,678

Note:

(a) *Wealth management products issued by financial institutions are fixed-term and principle guaranteed products.*

(b) *Beneficiary interests in trust and other plans are mainly beneficial interests issued by trust companies, securities companies, insurance companies and asset management companies. As at 31 December 2017, none of investments in the plans for transfer of beneficial interests held by the Group were under forward sale contracts with other financial institutions in mainland China (31 December 2016: RMB636 million).The fair values of the above mentioned investments approximate to their carrying amount.*

23 Investments in subsidiaries

	Note	31 December 2017	31 December 2016
Everbright Financial Leasing Co., Ltd.	(a)	2,700	2,700
CEB International Investment Co., Ltd.	(b)	1,379	494
Shaoshan Everbright Village Bank Co., Ltd.	(c)	105	105
Jiangsu Huai'an Everbright Village Bank Co., Ltd.	(d)	70	70
China Everbright Bank Company Limited (Europe)	(e)	156	–
Total		4,410	3,369

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23 Investments in subsidiaries (continued)

Note:

(a) Everbright Financial Leasing Co., Ltd. ("Everbright Financial Leasing") was incorporated on 19 May 2010 in Wuhan city of Hubei Province, with registered capital of RMB3,700 million. The principal activity of Everbright Financial Leasing is the provision of leasing services. The Bank holds 90% of equity interests and voting rights of Everbright Financial Leasing.

(b) CEB International Investment Co., Ltd. ("CEBI") was incorporated on 9 November 2015 in Hong Kong, with registered capital of HKD600 million, which equals to RMB494 million approximately, according to the spot exchange rate 0.823655, on the day of transferring the registration capital. The principal activity of CEBI is the provision of investment banking business activities. On April 25, 2017, the Bank increased the capital of CEBI by HKD1.0 billion, which equals to RMB885 million approximately, according to the spot exchange rate 0.884857, on the day of transferring the registration capital. After the capital increase, the registered capital of CEBI is HKD1,600 million, equivalent to approximately RMB1,379 million. The Bank holds 100% of equity interests and voting rights of CEBI.

(c) Shaoshan Everbright Village Bank Co., Ltd. ("Shaoshan Everbright") was incorporated on 24 September 2009 in Shaoshan city of Hunan Province, with registered capital of RMB150 million. The principal activities of Shaoshan Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Shaoshan Everbright.

(d) Jiangsu Huai'an Everbright Village Bank Co., Ltd. ("Huai'an Everbright") was incorporated on 1 February 2013 in Huai'an city of Jiangsu Province, with registered capital of RMB100 million. The principal activities of Huai'an Everbright are the provision of corporate and retail banking services. The Bank holds 70% of equity interests and voting rights of Huai'an Everbright.

(e) China Everbright Bank Company Limited (Europe) ("China Everbright S A.") was approved by the European Central Bank and was incorporated on July 2017 in Luxembourg, with registered capital of EUR 20 million, equivalent to RMB156 million at the spot exchange rate of 7.78096 on the date of transfer of registered capital. The principal activities of China Everbright S A is the provision of corporate banking services. The Bank holds 100% of equity interests and voting rights of China Everbright S A.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24 Fixed Assets

	Premises Note(i)	Aircraft Note(ii)	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2017	11,170	2,266	949	5,731	3,536	23,652
Additions	234	1,224	675	460	264	2,857
Transfers (out)/in to others	–	–	(18)	(1)	1	(18)
Disposals	–	(600)	–	(129)	(45)	(774)
Foreign currency conversion difference	–	(138)	–	(1)	(3)	(142)
As at 31 December 2017	11,404	2,752	1,606	6,060	3,753	25,575
Accumulated depreciation						
As at 1 January 2017	(2,995)	(50)	–	(3,949)	(2,271)	(9,265)
Charge for the year	(349)	(82)	–	(685)	(301)	(1,417)
Disposals	–	24	–	121	43	188
Foreign currency conversion difference	–	5	–	–	2	7
As at 31 December 2017	(3,344)	(103)	–	(4,513)	(2,527)	(10,487)
Provision for impairment						
As at 1 January 2017	(159)	–	–	–	–	(159)
As at 31 December 2017	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2017	7,901	2,649	1,606	1,547	1,226	14,929

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24 Fixed Assets (continued)

	Premises Note(i)	Aircraft Note(ii)	Construction in progress	Electronic equipment	Others	Total
Cost						
As at 1 January 2016	11,117	–	900	5,325	3,420	20,762
Additions	53	2,266	52	536	164	3,071
Transfers out	–	–	(3)	–	–	(3)
Disposals	–	–	–	(130)	(48)	(178)
As at 31 December 2016	11,170	2,266	949	5,731	3,536	23,652
Accumulated depreciation						
As at 1 January 2016	(2,630)	–	–	(3,376)	(1,951)	(7,957)
Charge for the year	(365)	(50)	–	(692)	(354)	(1,461)
Disposals	–	–	–	119	34	153
As at 31 December 2016	(2,995)	(50)	–	(3,949)	(2,271)	(9,265)
Provision for impairment						
As at 1 January 2016	(159)	–	–	–	–	(159)
As at 31 December 2016	(159)	–	–	–	–	(159)
Net book value						
As at 31 December 2016	8,016	2,216	949	1,782	1,265	14,228

Note:

(i) *As at 31 December 2017, title deeds were not yet finalised for the premises with a carrying amount of RMB148 million (31 December 2016: RMB156 million). Management of the Group expected that there would be no significant cost in obtaining the title deeds.*

(ii) *As at 31 December 2017, Everbright Financial Leasing Co., Ltd., the group's subsidiary leases certain aircrafts and aircraft engines which were included in "Aircraft" to third parties under operating lease arrangements, with a net book value of RMB2,649 million (2016: RMB2,216 million).*

The net book values of premises at the end of the year are analysed by the remaining terms of the leases as follows:

	31 December 2017	31 December 2016
Held in mainland China		
– Medium term leases (10 – 50 years)	7,807	7,967
– Short term leases (less than 10 years)	94	49
Total	7,901	8,016

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25 Goodwill

	31 December 2017	31 December 2016
Gross amount	6,019	6,019
Less: Provision for impairment losses	(4,738)	(4,738)
Net balances	1,281	1,281

As approved by the PBOC, the Bank and China Development Bank ("CDB") jointly signed an "Agreement between China Development Bank and China Everbright Bank for the transfer of assets, liabilities and banking premises of China Investment Bank" (the "Agreement") on 18 March 1999. According to the Agreement, CDB transferred the assets, liabilities, equity and 137 outlets of 29 branches of the former China Investment Bank ("CIB") to the Bank. The Agreement became effective on 18 March 1999. The Bank assessed the fair value of the transferred assets and liabilities, and recognised the excess of the purchase cost over the sum of the fair value of the net assets transferred and deferred tax assets as goodwill.

The goodwill is subject to annual impairment testing. The Bank makes provision for impairment if necessary. The Bank calculates the recoverable amount of the CGU using cash flow projections based on financial forecasts approved by management covering a five-year period. The discount rate used reflects specific risks relating to the relevant segments.

Based on the result of the impairment testing, no additional impairment losses on goodwill were recognised for the year.

26 Deferred tax assets and liabilities

(a) Analysed by nature

	31 December 2017		31 December 2016	
	Temporary difference	Deferred tax assets/ (liabilities)	Temporary difference	Deferred tax assets/ (liabilities)
Deferred income tax assets	30,385	7,596	22,489	5,622
Deferred income tax liabilities	–	–	–	–
Net balances	30,385	7,596	22,489	5,622

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26 Deferred tax assets and liabilities (continued)

(b) Movements of deferred tax

	Provision for impairment losses Note(i)	Net losses/ (gains) from fair value changes of financial instruments Note(ii)	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
1 January 2017	4,512	(324)	1,434	5,622
Recognised in profit or loss	406	687	113	1,206
Recognised in other comprehensive income	–	768	–	768
31 December 2017	4,918	1,131	1,547	7,596

	Provision for impairment losses Note(i)	Net losses/ (gains) from fair value changes of financial instruments Note(ii)	Accrued staff costs and others	Net balance of deferred tax assets/ (liabilities)
1 January 2016	3,288	(1,408)	2,043	3,923
Recognised in profit or loss	1,224	(59)	(609)	556
Recognised in other comprehensive income	–	1,143	–	1,143
31 December 2016	4,512	(324)	1,434	5,622

Note:

(i) The Group made provision for impairment losses on loans and advances to customers and other assets. The provision for impairment losses were determined based on the expected recoverable amount of the relevant assets at the end of the year. Besides, the amounts deductible for income tax purposes are calculated at 1% of the gross carrying amount of qualifying assets at the end of the year, 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 losses/(gains) on fair value changes of financial instruments are subject to tax when realised.

(iii) Unrecognised deferred tax assets

As at 31 December 2017, the Group has not recognised deferred tax assets of RMB6,928 million (31 December 2016: RMB5,157 million) for deductible temporary difference amounting to RMB27,710 million (31 December 2016: RMB20,629 million). This was mainly because it was uncertain whether the losses from write-offs of the impaired assets could be approved by the relevant tax authorities in the foreseeable future.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27 Other assets

	Note	31 December 2017	31 December 2016
Other receivables	(a)	8,127	6,162
Fixed assets purchase prepayment		2,088	1,187
Long-term deferred expense		1,223	1,337
Intangible assets		992	844
Repossessed assets		476	389
Land use rights		100	106
Others		4,158	3,018
Total		17,164	13,043

Note:

(a) Other receivables and prepayments mainly include items in the process of clearing and settlement.

28 Pledged assets

(a) Assets pledged as collaterals

Financial assets pledged by the Group as collaterals for liabilities include discounted bills, debt securities and finance lease receivables. They are mainly pledged for repurchase agreements, time deposits, derivative contracts and borrowings from banks. The carrying amount of the financial assets pledged as securities as at 31 December 2017 is RMB74,231 million (31 December 2016: RMB73,389 million).

(b) Collaterals received

The Group accepted securities as collateral that are permitted to be sold or re-pledged in connection with reverse repurchase agreements with banks and other financial institutions in 2017. As at 31 December 2017, the Group's collateral received from banks and other financial institutions has expired (31 December 2016: Nil). As at 31 December 2017, the Group had no collateral that were sold or re-pledged, but was obligated to return (31 December 2016: Nil). These transactions are conducted under standard terms in the normal course of business.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29 Deposits from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2017	31 December 2016
Deposits in mainland China		
– Banks	155,111	344,988
– Other financial institutions	416,005	484,186
Sub-total	571,116	829,174
Deposits outside mainland China		
– Banks	6,331	1,180
Total	577,447	830,354

30 Placements from banks and other financial institutions

Analysed by type and location of counterparty

	31 December 2017	31 December 2016
Placements in mainland China		
– Banks	61,686	61,386
– Other financial institutions	404	4
Sub-total	62,090	61,390
Placements outside mainland China		
– Banks	44,708	34,111
Total	106,798	95,501

31 Financial assets sold under repurchase agreements

(a) Analysed by type and location of counterparty

	31 December 2017	31 December 2016
In mainland China		
– Banks	45,581	41,195
Total	45,581	41,195

(b) Analysed by collateral

	31 December 2017	31 December 2016
Bank acceptances	4,471	7,610
Debt securities	41,110	33,585
Total	45,581	41,195

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32 Deposits from customers

	Note	31 December 2017	31 December 2016
At amortised cost			
Demand deposits			
– Corporate customers		709,342	628,167
– Individual customers		176,416	183,856
Sub-total		885,758	812,023
Time deposits			
– Corporate customers		673,652	639,629
– Individual customers		108,399	115,941
Sub-total		782,051	755,570
Pledged deposits			
– Acceptances		166,513	173,385
– Letters of credit		14,645	9,980
– Letters of guarantees		23,300	20,763
– Others		16,434	14,249
Sub-total		220,892	218,377
Other deposits		91,371	108,027
Total deposits from customers at amortised cost		1,980,072	1,893,997
At fair value			
Structured deposits	(i)		
– Corporate customers		196,313	167,967
– Individual customers		96,280	58,923
Total deposits from customers at fair value		292,593	226,890
Total		2,272,665	2,120,887

Note:

(i) *Due to customers measured at fair value are structured deposits designated as at fair value through profit or loss at inception.There were no significant changes in the Group's credit risk and therefore there were no significant gains or losses attributable to changes in the Group's credit risk for the above-mentioned structured deposits during the years ended 31 December 2017 and 2016.*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33 Accrued staff costs

	Note	31 December 2017	31 December 2016
Salary and welfare payable		7,452	6,992
Pension payable	(a)	291	126
Supplementary retirement benefits payable	(b)	669	658
Total		8,412	7,776

Note:

(a) Pension scheme

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution scheme for the employees arranged by local government labour and social security organisations. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stipulated by the relevant government organisations.

In addition to the basic retirement scheme above, the Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' gross wages in prior year, which are expensed to profit or loss when the contributions are made.

(b) Supplementary retirement benefits ("SRB")

The Group pays SRB for eligible employees. The amount represents the present value of the total estimated amount of future benefits that the Group is committed to pay for eligible employees at the end of the year. The Group's obligations in respect of the SRB were accessed using projected unit credit method by qualified staff (a member of society of Actuaries in America) of an external independent actuary: Willis Towers Watson Management Consulting (Shenzhen) Co., Ltd.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33 Accrued staff costs (continued)

Note: (continued)

(b) *Supplementary retirement benefits ("SRB")* (continued)

(i) *The balances of SRB of the Group are as follows:*

	31 December 2017	*31 December 2016*
Present value of SRB obligation	*669*	*658*

(ii) *Movements of SRB of the Group are as follows:*

	2017	*2016*
As at 1 January	*658*	*399*
Current service cost	*65*	*236*
Interest cost	*24*	*15*
Remeasurement of defined benefit plan	*(63)*	*23*
Payments made	*(15)*	*(15)*
As at 31 December	*669*	*658*

Remeasurement of defined benefit plan was recognised in other comprehensive income, see Note V 41.

(iii) *Principal actuarial assumptions of the Group are as follow:*

	31 December 2017	*31 December 2016*
Discount rate	*4.50%*	*3.75%*
Medical cost trend rate	*5.88%*	*5.88%*
Average expected future lifetime	*22.80*	*22.80*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33 Accrued staff costs (continued)

Note: (continued)

(b) Supplementary retirement benefits ("SRB") (continued)

(iv) Sensitivity analysis:

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumption constant, would have affected the defined benefit obligation by the amounts shown below.

	31 December 2017	
	Increase	*Decrease*
Discount rate (1% movement)	*(167)*	*182*
Medical cost trend rate (1% movement)	*193*	*(137)*

	31 December 2016	
	Increase	*Decrease*
Discount rate (1% movement)	*(163)*	*178*
Medical cost trend rate (1% movement)	*187*	*(133)*

Although the analysis does not take account of the full distribution of cash flows expected under the plans, it does provide an approximation of the sensitivity of the assumptions shown.

Except as mentioned in Note (a) and Note (b) above, the Group has no significant responsibilities to pay any other retirement benefits to retired employees.

34 Taxes payable

	31 December 2017	31 December 2016
Income tax payable	2,914	2,741
Value added tax payable	1,685	1,416
Others	333	344
Total	4,932	4,501

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35 Interests payable

	31 December 2017	31 December 2016
Deposits from customers	29,424	26,890
Debt securities issued	3,576	1,731
Others	7,206	4,955
Total	40,206	33,576

36 Debt securities issued

	Note	31 December 2017	31 December 2016
Subordinated debts issued	(a)	6,700	6,700
Financial bonds issued	(b)	52,743	32,800
Tier-two capital bonds	(c)	56,165	16,200
Convertible bonds issued	(d)	25,597	–
Interbank deposits issued	(e)	284,457	347,067
Certificates of deposits issued	(f)	10,000	6,282
Medium term notes	(g)	9,734	3,451
Total		445,396	412,500

(a) Subordinated debts

	Note	31 December 2017	31 December 2016
Subordinated fixed rate debts maturing in June 2027	(i)	6,700	6,700
Total		6,700	6,700

Note:

(i) Fixed rate subordinated debts of RMB6.7 billion with a term of fifteen years were issued on 7 June 2012. The coupon rate is 5.25% per annum. The Group has an option to redeem the debts on 8 June 2022 at the nominal amount.

(ii) As at 31 December 2017, the fair value of the total subordinated debt securities issued approximates to RMB6,549 million (31 December 2016: RMB6,957 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36 Debt securities issued (continued)

(b) Financial bonds

	Note	31 December 2017	31 December 2016
Financial fixed rate bonds maturing in March 2017	(i)	–	20,000
Financial floating rate bonds maturing in March 2017	(ii)	–	10,000
Financial fixed rate bonds maturing in June 2018	(iii)	2,800	2,800
Financial fixed rate bonds maturing in February 2020	(iv)	27,970	–
Financial fixed rate bonds maturing in July 2020	(v)	21,973	–
Total		52,743	32,800

Note:

(i) Fixed rate financial bonds of RMB20 billion with a term of five years were issued on 28 March 2012. The coupon rate is 4.20% per annum.

(ii) Floating rate financial bonds of RMB10 billion with a term of five years were issued on 28 March 2012. The bonds bear interest at a floating rate based on the PBOC's one-year time deposits rate plus a margin of 0.95%.

(iii) Fixed rate financial bonds of RMB3.50 billion with a term of three years were issued by Everbright Financial Leasing Co., Ltd on 16 June 2015. The coupon rate is 4.00% per annum. As at 31 December 2017, the Bank held RMB0.7 billion of these bonds.

(iv) Fixed rate financial bonds of RMB28 billion with a term of three years were issued on 23 February 2017. The coupon rate is 4.00% per annum.

(v) Fixed rate financial bonds of RMB22 billion with a term of three years were issued on 21 July 2017. The coupon rate is 4.20% per annum.

(iv) As at 31 December 2017, the fair value of the total financial bond securities issued approximates to RMB51,533 million (31 December 2016: RMB32,736 million).

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36 Debt securities issued (continued)

(c) Tier-two capital bonds

	Note	31 December 2017	31 December 2016
Tier-two capital fixed rate bonds maturing in June 2024	(i)	16,200	16,200
Tier-two capital fixed rate bonds maturing in March 2027	(ii)	27,976	–
Tier-two capital fixed rate bonds maturing in August 2027	(iii)	11,989	–
Total		56,165	16,200

Note:

(i) *Fixed rate tier-two capital bonds of RMB16.2 billion with a term of ten years were issued on 9 June 2014. The coupon rate is 6.20% per annum. The Group has an option to redeem the debts on 10 June 2019 at the nominal amount.*

(ii) *Fixed rate tier-two capital bonds of RMB28.0 billion with a term of ten years were issued on 2 March 2017. The coupon rate is 4.60% per annum. The Group has an option to redeem the debts on 6 March 2022 at the nominal amount.*

(iii) *Fixed rate tier-two capital bonds of RMB12.0 billion with a term of ten years were issued on 25 August 2017. The coupon rate is 4.70% per annum. The Group has an option to redeem the debts on 29 August 2022 at the nominal amount.*

(iv) *As at 31 December 2017, the fair value of the total tier-two capital bonds approximates to RMB53,741 million (31 December 2016: RMB16,881 million).*

(d) Convertible bonds issued

	31 December 2017	31 December 2016
Fixed rate six years convertible bonds issued in March 2017	25,597	–

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36 Debt securities issued (continued)

(d) Convertible bonds issued (continued)

The convertible corporate bonds issued have been split into the liability and equity components as follows:

	Note	Liability component	Equity component Note V.39	Total
Nominal value of convertible corporate bonds		24,826	5,174	30,000
Direct transaction costs		(64)	(13)	(77)
Balance as at the issuance date		24,762	5,161	29,923
Amortisation		835	–	835
Conversion Amount	(iv)	–	–	–
Balance as at 31 December 2017		25,597	5,161	30,758

Note:

(i) *Pursuant to the approval by relevant PRC authorities, on 17 March 2017, the Bank issued A-share convertible bonds with a total nominal amount of RMB30 billion. The convertible bonds have a maturity term of six years from 17 March 2017 to 16 March 2023, and bear a fixed interest rate of 0.20% for the first year, 0.50% for the second year, 1.00% for the third year, 1.50% for the forth year, 1.80% for the fifth year and 2.00% for the sixth year. The convertible bond holders may exercise their rights to convert the convertible bonds into the Bank's A shares at the stipulated conversion price during the period ("Conversion Period") beginning six months after the date of issuance until the maturity date. Within 5 trading days after maturity, the Bank shall redeem the outstanding convertible bonds at 105% of par value, including interest for the sixth year.*

(ii) *During the Conversion Period, if the closing price of the Bank's A Shares is not lower than or equal to 130% of the prevailing conversion price in at least 15 trading days out of any 30 consecutive trading days, subject to the approval by relevant PRC authorities (if needed), the Bank has the right to redeem all or part of the outstanding convertible bonds at par value plus accrued interest on the first day on which the redemption criteria are met. In case that the Bank's conversion price is adjusted due to the ex-right or ex-dividend at these trading days, the pre-adjustment price is calculated at the conversion price and the closing price at the trading day before the adjustment, and the post-adjustment price is calculated at the conversion price and the closing price at the trading day after the adjustment. The Bank also has the right to redeem all the convertible bonds at par value plus accrued interest should the total outstanding amount be less than RMB30 million.*

(iii) *Based on the calculation method in the prospectus of the convertible bonds, the initial conversion price is RMB4.36 per share, no less than the average trading price of the Bank's A shares within 30 or 20 trading days before the announcement date of the prospectus (if the stock price is adjusted due to the ex-right or ex-dividend within these 30 or 20 trading days, the pre-adjustment price is calculated at the related adjusted price), the average trading price of the Bank's A shares at the previous trading day, as well as the latest audited net asset value per share and the face value. As at 31 December 2017,the new conversion price is RMB4.31 per share.*

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36 Debt securities issued (continued)

(d) Convertible bonds issued (continued)

Note: (continued)

(iv) *As at December 31, 2017, a total of RMB137,000 convertible bonds have been converted into ordinary shares, the cumulative convertible number of shares is 32,138.*

(v) *There is no interest paid by the Bank related to the convertible bonds for the period ended 31 December 2017 (2016: null).*

(e) Interbank deposits issued

In 2017, 304 inter-bank deposits were issued by the Bank and measured at amortized cost. Its carrying amount is RMB686,630 million (2016: RMB733,510 million). The carrying amount of inter-bank deposits due in 2017 was RMB752,020 million (2016: RMB248,250 million). As at 31 December 2017, the fair value of its outstanding interbank deposits was RMB280,452 million (31 December 2016: RMB342,860 million).

(f) Certificates of deposits issued

As at 31 December 2017, the certificates of deposits were issued by the Bank's Hong Kong and Seoul branch and measured at amortised cost. The fair value of the certificates of deposits issued approximates to their carrying amount.

(g) Medium term notes

	Note	31 December 2017	31 December 2016
Medium term notes with fixed rate maturing in 15 September 2019	(i)	3,239	3,451
Medium term notes with fixed rate maturing in 8 March 2020	(ii)	3,239	–
Medium term notes with floating rate maturing in 13 June 2020	(iii)	3,256	–
Total		9,734	3,451

Note:

(i) *Fixed rate medium term notes of USD500 million with a term of three years were issued by The Bank's Hong Kong branch on 8 September 2016. The coupon rate is 2.00% per annum.*

(ii) *Fixed rate medium term notes of USD500 million with a term of three years were issued by The Bank's Hong Kong branch on 1 March 2017. The coupon rate is 2.50% per annum.*

(iii) *Floating rate medium term notes of USD500 million with a term of three years were issued by The Bank's Hong Kong branch on 6 June 2017. The initial coupon rate is 2.09% per annum.*

(iv) *As at 31 December 2017, the fair value of the medium term notes approximates to RMB9,677 million. (31 December 2016: RMB3,440 million).*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37 Other liabilities

	Note	31 December 2017	31 December 2016
Payment and collection clearance accounts		5,243	4,165
Deferred emoluments payment	(a)	4,663	4,440
Deferred income	(b)	4,365	2,903
Bank Loans	(c)	3,872	2,387
Finance leases payable		3,294	3,618
Dormant accounts		336	319
Provisions	(d)	317	415
Dividend payables		20	20
Others		20,208	13,049
Total		42,318	31,316

Note:

(a) *As at 31 December 2017, the deferred emolument payable amounted to RMB4,663 million (31 December 2016: RMB4,440 million),which is related to deferred emoluments payable to employees in respect of services provided to the Group. Such amount will be distributed according to plans.*

(b) *Deferred income primarily comprised the deferred credit card income.*

(c) *As at 31 December 2017, Everbright Financial Leasing Co., Ltd., the group's subsidiary borrowed long-term loans with a terms from 3 to 10 years. Everbright Financial Leasing should repay capital with interest quarterly. The amount of the long-term bank loan is RMB3,872 million. As at 31 December 2016, Everbright Financial Leasing Co., Ltd., the group's subsidiary borrowed long-term loans, the amount is RMB516 million. International Investment Co., Ltd., the group's subsidiary borrowed short-term loans, the amount is RMB1,871 million.*

(d) *As at 31 December 2017, the accruals for litigation losses estimated by the Group based on the status of outstanding litigation cases and the probability of losses amounted to RMB17 million (31 December 2016: RMB17 million).*

38 Share capital

The Bank's shareholding structure as at the end of the year is as follows:

	Note	31 December 2017	31 December 2016
Ordinary shares listed in mainland China (A share)		39,810	39,810
Ordinary shares listed in Overseas (H share) (a)		12,679	6,869
Total		52,489	46,679

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38 Share capital (continued)

(a) Pursuant to the resolution of 2016 annual general meeting of shareholders held on 20 June 2017 and approved by the CSRC, the Bank issued 5.81 billion overseas listed H shares with RMB1.00 per share on 22 December 2017, all of which are ordinary share. The raised funds is HKD30.957 billion, equivalent to RMB26.051 billion, net of issuance costs, the actual net proceeds is RMB25.978 billion, of which included in share capital is RMB5.81 billion, credited to the capital reserve is RMB20.168 billion.

The H shares rank pari passu in all respects with the A shares including the right to all dividend distributions declared, paid or made.

39 Other equity instrument

	Note V	31 December 2017	31 December 2016
Preference shares (Note(a), (b), (c), (d))		29,947	29,947
Equity of convertible bonds	36(d)	5,161	–
Total		35,108	29,947

(a) Preference shares at the end of the year

Issue date	Dividend rate	Issue price (RMB/share)	Number of shares issued (million)	Issue amount (RMB million)	Conversion condition
Everbright P1					
2015-6-19	5.30%	100	200	20,000	Mandatory conversion trigger events
Everbright P2					
2016-8-8	3.90%	100	100	10,000	Mandatory conversion trigger events
Sub-Total				30,000	
Less:					
Issuing costs				(53)	
Book value				29,947	

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39 Other equity instrument (continued)

(b) Main clauses

(i) Dividend

Fixed rate for the first 5 years after issuance.

Dividend reset every 5 years thereafter to the sum of the benchmark rate and the fixed spread.

The fixed spread equals to the spread between the dividend rate at the time of issuance and the benchmark rate. The fixed spread will remain unchanged throughout the term of the preference shares.

(ii) Conditions to distribution of dividends

The Group could pay dividends while the Group still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Group's capital adequacy ratio meets regulatory requirements. The Group may elect to cancel any dividend, but such cancellation requires a shareholder's resolution to be passed.

(iii) Dividend blocker

If the Group cancels all or part of the dividends to the preference shareholders, the Group shall not make any dividend distribution to ordinary shareholders before the Group pays the dividends for the current dividend period to the preference shareholders in full.

(iv) Order of distribution and liquidation method

The preference shareholders are subordinated to the depositors, ordinary creditors, holders of subordinated debt and holders of Tier-two capital bonds, but will be senior to the ordinary shareholders

(v) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier-one Capital Trigger Event (Common equity tier-one capital Adequacy Ratio of the Group falling to 5.125% or below), the Group shall have the right to convert all or part of the Preference Shares into A shares, in order to restore the Common equity tier-one capital Adequacy Ratio of the Group to above 5.125%; If Preference Shares were converted to A shares, it could not be converted to Preference Shares again.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39 Other equity instrument (continued)

(b) Main Clauses (continued)

(v) Mandatory conversion trigger events (continued)

Upon the occurrence of a Non-Viability Trigger Event (Earlier of the two situations: (1) CBRC has determined that the Group would become non-viable if there is no conversion or write-down of capital; or (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Group would become non-viable), the Group shall have the right to convert all Preference Shares into A shares.

(vi) Redemption

Subject to the prior approval of the CBRC and the satisfaction of the relevant requirements, the Group shall have the right to redeem all or part of the Preference Shares on any redeemable day (the payment date for dividends of the Preference Shares each year) after the fifth year following the completion date of the Issuance of the Preference Shares. The specific commencement date of the redemption period shall be determined by the Board in line with market conditions, subject to authorisation at a shareholders' general meeting (the authorisation can be further delegated). The redemption period for the Preference Shares shall commence on such commencement date of the redemption period and end on the completion date of the redemption or conversion of all the Preference Shares. Where redemption is in part, the Preference Shares shall be redeemed based on the same proportion and conditions. Preference Shares shall be redeemed in cash. The redemption price shall be the par value plus the dividend declared but unpaid for the relevant period.

(c) Changes in Preference shares outstanding

	1 January 2017		Additions for the year		31 December 2017	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	300	29,947	–	–	300	29,947

	1 January 2016		Additions for the year		31 December 2016	
	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value	Number of shares (million)	Carrying value
Preference Shares	200	19,965	100	9,982	300	29,947

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39 Other equity instrument (continued)

(d) Interests attributable to equity instruments' holders

Items	31 December 2017	31 December 2016
1. Total equity attributable to equity shareholders of the Bank	304,760	250,455
(1) Equity attributable to ordinary shares holders of the Bank	274,813	220,508
(2) Equity attributable to preference shares holders of the Bank	29,947	29,947
2. Total equity attributable to non-controlling interests	676	613
(1) Equity attributable to non-controlling interests of ordinary shares	676	613
(2) Equity attributable to non-controlling interests of preference shares	–	–

40 Capital reserve

	Note V	31 December 2017	31 December 2016
Share premium	38(a)	53,533	33,365
Total		53,533	33,365

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

41 Other comprehensive income

	31 December 2017	31 December 2016
Items that may be reclassified subsequently to profit or loss		
Fair value changes on available-for-sale financial assets	(1,778)	552
Exchange differences on translation of financial statements of overseas subsidiaries	(46)	41
Items that will not be reclassified to profit or loss		
Remeasurement of defined benefit plan	(21)	(84)
Total	(1,845)	509

Other comprehensive income attributable to equity holders of the Bank in the consolidated statement of financial position:

	Fair value gains on available for sale financial assets	Exchange differences on translation of foreign operations	Remeasurement of defined benefit plan	Total
As at 1 January 2016	3,982	8	(61)	3,929
Changes in amount for the previous year	(3,430)	33	(23)	(3,420)
As at 1 January 2017	552	41	(84)	509
Changes in amount for the year	(2,330)	(87)	63	(2,354)
As at 31 December 2017	(1,778)	(46)	(21)	(1,845)

42 Surplus reserve and general reserve

(a) Surplus reserve

The surplus reserve at the end of the year represented statutory surplus reserve fund. The Bank is required to appropriate 10% of its net profit, after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

(b) General reserve

The Bank is required, in principle, to set aside a general reserve, through appropriation of profit after tax, with an amount of not lower than 1.5% of the ending balance of its gross risk-bearing assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

43 Appropriation of profits

(a) At the Meeting of Board of Directors on 28 March 2018, the board of directors approved the following profit appropriations for the year ended 31 December 2017:

- Appropriated RMB3,103 million (10% of the net profit of the bank) to surplus reserve;
- Appropriated RMB809 million to general reserve; and
- Declared cash dividends to all shareholders of RMB9,501 million representing RMB1.81 per 10 shares before tax.

(b) At the Meeting of Board of Directors on 20 June 2017, the board of directors approved the following profit appropriations for the year ended 31 December 2016:

- Appropriated RMB2,987 million (10% of the net profit of the bank) to surplus reserve;
- Appropriated RMB10,362 million to general reserve; and
- Declared cash dividends to all shareholders of RMB4,575 million representing RMB0.98 per 10 shares before tax.

(c) At the Board Meeting held on 6 June 2017, the dividend distribution of the first preference shares was approved by the Board of Directors:

- Declared cash dividends to preference shareholders of RMB1,060 million representing RMB5.3 per share before tax, start accruing from 25 June 2016, and are calculated using the 5.30% of dividend yield ratio for China Everbright Bank the first phase preference shares.

(d) At the Board Meeting held on 10 August 2017, the dividend distribution of the second preference shares was approved by the Board of Directors.

- Declared cash dividends to preference shareholders of RMB390 million representing RMB3.9 per share before tax, start accruing from 11 August 2016, and are calculated using the 3.90% of dividend yield ratio for China Everbright Bank the second phase preference shares.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

44 Involvement with unconsolidated structured entities

(a) Structured entities sponsored by third party institutions in which the Group holds an interest:

The types of structured entities that the Group does not consolidate but in which it holds an interest include entities set up for wealth management products issued by other financial institutions and beneficiary interests in trust and other plans ("asset management plans") included in debt securities classified as receivables, available-for-sale fund investments and wealth management products, held-to-maturity asset-backed securities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of third party investors. These vehicles are financed through the issue of units to investors.

The following table sets out an analysis of the carrying amounts and maximum exposure of interests held by the Group in unconsolidated structured entities sponsored by third party institutions as at 31 December 2017:

	31 December 2017		31 December 2016	
	Carrying amount	Maximum exposure	Carrying amount	Maximum exposure
Debt securities classified as receivables	514,576	514,576	627,678	627,678
Available-for-sale financial assets				
– Fund investments	235,917	235,917	25,500	25,500
– Wealth management products	32,400	32,400	161,294	161,294
Held-to-maturity investments				
– Asset-backed securities	4,330	4,330	1,688	1,688
Total	787,223	787,223	816,160	816,160

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in:

The types of unconsolidated structured entities sponsored by the Group include non-principal guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of units to investors. Interest held by the Group includes investments in units issued by these structured entities and fees charged by providing management services. As at 31 December 2017, the carrying amounts of the investments in the notes issued by these structured entities and management fee receivables being recognized are not material in the statement of financial positions.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

44 Involvement with unconsolidated structured entities (continued)

(b) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest in (continued):

As at 31 December 2017, the amount of assets held by the unconsolidated non-principal guaranteed wealth management products, which are sponsored by the Group, is RMB737,881 million (31 December 2016: RMB1,028,903 million). The aggregated amount of the non-principal guaranteed wealth management products sponsored and issued by the Group after 1 January 2017 but matured before 31 December 2017 amounted to RMB305,671 million (2016: RMB771,868 million).

During 2017, the amount of fee and commission income received from the unconsolidated structured entities by the Group amounted to RMB3,400 million (2016: RMB7,472 million).

For the purpose of asset-liability management, wealth management products may raise short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. After internal risk assessment, the Group may enter into placements transactions with these wealth management products in accordance with market principles. As at 31 December 2017, the balance of above trading was RMB16,000 million (31 December 2016: Nil). Such financing provided by the Group was included in "Placements with banks and other financial institutions". The maximum exposure to loss of those placements approximated to the carrying amount. During 2017, the amounts of interest receivables provided by the above financing being recognized are not material for the Group in the statement of profit or loss.

In addition, as at 31 December 2017, the Group hold interests in the unconsolidated structured entities of asset securitization transactions, refer to Note V.45. During 2017, the Group's income from these structured entities was immaterial.

(c) Consolidated structured entities

The consolidated structured entities of the Group are primarily the principal guaranteed wealth management products and certain asset management plans and trust plans. Principal guaranteed wealth management products sponsored and managed by the Group represent products to which the Group has guaranteed the investor's principal investment, regardless of their actual performance. Investments made by these products and the corresponding liabilities to the investors of these products are presented in the respective financial assets and financial liabilities items based on the nature of the assets and liabilities. The Group controls these entities when the Group has power over, is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to use its power over these entities to affect the amount of the Group's returns.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

45 Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to structured entities. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned in accordance with IFRSs. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continued to recognise the transferred assets.

Credit assets backed securitization

The Group enters into credit assets transfers in the normal course of business during which it transfers credit assets to structured entities which in turn issue asset-backed securities to investors. The Group may acquire some asset-backed securities at the subordinated tranche level and accordingly, may retain parts of the risks and rewards of the transferred credit assets. The Group would determine whether or not to derecognise the associated credit assets by evaluating the extent to which it retains the risks and rewards of the assets.

With respect to the credit assets that were securitised and qualified for derecognition, the Group derecognised the transferred credit assets in their entirety. The corresponding total carrying amount of asset-backed securities held by the Group in the securitisation transactions was RMB265 million as at 31 December 2017 (31 December 2016: Nil).

For those in which the Group has neither transferred nor retained substantially all the risks and rewards of the transferred credit assets, and retained control of the credit assets, the transferred credit assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The carrying amount at the time of transfer of the original credit assets, which the Group determined that it has continuing involvement through acquiring some tranches, was RMB8,127 million as at 31 December 2017 (31 December 2016: Nil) and the carrying amount of assets that the Group continues to recognise on the statement of financial position was RMB550 million as at 31 December 2017 (31 December 2016: Nil).

Transfer of right to earnings

The Group enters into transfer of right to earnings of credit assets transactions in the normal course of business by which it transfers the right to earnings to structured entities which sell share of trust to investors. As the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and it has retained control on them, these financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the transferred assets. As at 31 December 2017, loans with an original carrying amount of RMB5,957 million (31 December 2016: RMB6,593 million) had been transferred by the Group under arrangements in which the Group retains a continuing involvement in such assets in the form of subordinated tranches. As at 31 December 2017, the carrying amount of assets that the Group continues to recognise amounts to RMB2,537 million (31 December 2016: RMB2,983 million).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

46 Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management, of which the primary focus is on capital adequacy ratio management. The Group calculates the capital adequacy ratio in accordance with guidelines issued by the CBRC. The capital of the Group is divided into common equity tier-one capital, additional 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 global 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. The required information is filed with the CBRC by the Group and the Bank semi-annually and quarterly.

With effect from 1 January 2013, the Group started computing its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations promulgated by the CBRC.

The CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with "Regulation Governing Capital of Commercial Banks (provisional)". For systemically important banks, each bank is required to maintain the common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of at least 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, the minimum ratios for common equity tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio are 7.50%, 8.50% and 10.50%, respectively. In addition, those individual banking subsidiaries or branches incorporated outside Mainland China are also directly regulated and supervised by their respective local banking supervisors. There are certain differences in the capital adequacy requirements of different countries.

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. The counterparty credit risk-weighted assets for over-the-counter (OTC) derivatives are the summation of default risk-weighted assets and credit value adjustment (CVA). Market risk-weighted assets are calculated using the standardised approach. Operational risk-weighted assets are calculated using basic indicator approach.

The Group calculates the capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and relevant requirements promulgated by the CBRC.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

46 Capital management (continued)

The table below summarises the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio calculated in accordance with the Capital Rules for Commercial Banks (Provisional) and other relevant regulations promulgated by the CBRC.

	31 December 2017	31 December 2016
Total common equity tier-one capital	275,302	221,001
Share capital	52,489	46,679
Qualifying portions of capital reserve, other equity instruments and other comprehensive income	56,849	33,874
Surplus reserve	21,054	17,951
General reserve	52,257	51,447
Retained earnings	92,164	70,557
Qualifying portions of non-controlling interests	489	493
Common equity tier-one capital deductions	(2,276)	(2,125)
Goodwill	(1,281)	(1,281)
Other intangible assets other than land use right	(992)	(844)
Net deferred tax assets due to operating losses that depend on future earnings	(3)	–
Net common equity tier-one capital	273,026	218,876
Additional tier-one capital	30,012	29,997
Additional tier-one capital instruments	29,947	29,947
Qualifying portions of non-controlling interests	65	50
Tier-one capital net	303,038	248,873
Tier-two capital	82,486	39,007
Qualifying portions of tier-two capital instruments issued and share premium	62,865	22,900
Excess loan loss provisions	19,498	16,014
Qualifying portions of non-controlling interests	123	93
Net capital base	385,524	287,880
Total risk-weighted assets	2,856,800	2,665,037
Common equity tier-one capital adequacy ratio	9.56%	8.21%
Tier-one capital adequacy ratio	10.61%	9.34%
Capital adequacy ratio	13.49%	10.80%

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

47 Notes to consolidated cash flow statements

(a) Net increase in cash and cash equivalents

	31 December 2017	31 December 2016
Cash and cash equivalents as at 31 December	147,923	241,507
Less: Cash and cash equivalents as at 1 January	241,507	121,964
Net (decrease)/increase in cash and cash equivalents	(93,584)	119,543

(b) Cash and cash equivalents

	31 December 2017	31 December 2016
Cash on hand	5,584	6,667
Deposits with the central bank	37,035	66,255
Deposits with banks and other financial institutions	37,625	141,711
Placements with banks and other financial institutions	67,679	26,874
Total	147,923	241,507

48 Related party relationships and transactions

(a) The immediate and ultimate parent Companies

The immediate and ultimate parents of the Group are China Everbright Group Ltd. ("China Everbright Group") and China Investment Corporation.

The uniform social credit code of China Everbright Group is 91100000102063897J, and the transactions and balances with China Everbright Group and its affiliates are listed in Note V 48(b).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

48 Related party relationships and transactions

(b) Transactions between the Group and other related parties

(i) Other related parties information

Other related parties having transactions with the Group in 2016 and 2017:

Related party	Relationship with the Group
Affiliated companies	
– China Everbright Limited	Shareholder, affiliate of China Everbright Group Ltd.
– Everbright Securities Co., Ltd. ("Everbright Securities")	Affiliate of China Everbright Group Ltd.
– China Everbright Group Limited	Affiliate of China Everbright Group Ltd.
– China Everbright International Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Industry (Group) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Convention and Exhibition Centre Limited	Affiliate of China Everbright Group Ltd.
– China Everbright Investment And Assets Management Co,Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Real Estate Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Financial Holding Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Life Insurance Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Xinglong Trust Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Pramerica Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Futures Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Securities Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Fortune Investment Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Capital Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Happy Life International Leasing Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sun Life Everbright Asset Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Yunfu Internet Co,Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright International Trust & Investment Co., Ltd	Affiliate of China Everbright Group Ltd.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) ***Other related parties information*** (continued)

Other related parties having transactions with the Group in 2016 and 2017 (continued):

Related party	Relationship with the Group
Affiliated companies (continued)	
– Everbright Jinhui Asset Management Co., Ltd. (Shanghai)	Affiliate of China Everbright Group Ltd.
– Everbright jin'ou Asset Management Limited	Affiliate of China Everbright Group Ltd.
– Wuxi Everbright Real Estate Development Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Lide Asset Management (Shanghai) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Jiaxing Meiyin Investnent Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Baode Trust Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Industrial Capital Management (Shenzhen) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Sunshine Fuzun (Shenzhen) Financial Services Consulting Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Banks and Securities Data Network Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Securities International Limited	Affiliate of China Everbright Group Ltd.
– Everbright Securities Financial Holdings Limited	Affiliate of China Everbright Group Ltd.
– Everbright International Hotel Property Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Photon Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Everbright Deshang Investment Management (Shenzhen) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– China Everbright Ivy Investment Management (Shanghai) Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Beijing Wenzi Everbright cultural and creative industry Investment Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Beijing Everbright Wudaokou Investment Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.
– Shanghai Everbright Securities Equity Investment Fund Management Co., Ltd.	Affiliate of China Everbright Group Ltd.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(i) Other related parties information (continued)

Other related parties having transactions with the Group in 2016 and 2017 (continued):

Related party	Relationship with the Group
Other related parties	
– China Re Asset Management Co., Ltd.	Common key management
– China Shipping (Group) Company	Common key management
– Shanghai International Trust Co., Ltd.	Common key management
– COSCO Finance Co., Ltd.	Common key management
– Shanghai Baosight Software Co., Ltd.	Common key management
– SAIC Motor Corporation Limited	Common key management
– Vantone Holdings Co., Ltd.	Common key management
– Haitong Securities Co., Ltd.	Common key management
– China UnionPay Co., Ltd.	Common key management
– Orient Securities Co., Ltd.	Common key management
– Shanghai ICY New Energy Venture Capital Co., Ltd.	Common key management
– China Pacific Property Insurance Co., Ltd.	Common key management
– China Pacific Life Insurance Co., Ltd.	Common key management
– First-trust Fund Management Co., Ltd.	Common key management
– Shanghai Benemae Pharmaceutical Corporation	Common key management
– Hithink Flush Information Network Co., Ltd.	Common key management
– Shanghai Electric (group) Corporation	Common key management
– China Traditional Chinese Medicine Co., Ltd.	Common key management
– Beijing Science and Technology Park Construction (group) Co., Ltd.	Common key management
– CIB Fund Management Co., Ltd.	Common key management
– COSCO Shipping Development Co., Ltd.	Common key management
– Shanghai Electric Group Co., Ltd.	Common key management
– Changsha siming robot technology Co., Ltd.	Common key management
– Shijiazhuang huilin food Co., Ltd.	Common key management
– Beijing Jingeng Clean Energy power Co., Ltd.	Common key management
– Zhengzhou chemical light industry Co., Ltd.	Common key management

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting period are summarised as follows:

	China Everbright Group (Note V 48(a))	Affiliated Companies	Others	Total
Transactions with related parties for the year ended 31 December 2017:				
Interest income	11	1,597	72	1,680
Interest expense	(6)	(422)	(514)	(942)
Balances with related parties as at 31 December 2017:				
Financial assets sold under repurchase agreements	–	100	–	100
Interests receivable	6	338	15	359
Loans and advances to customers	–	3,142	–	3,142
Derivative financial assets	–	–	1	1
Available-for-sale financial assets	277	9,765	3,596	13,638
Held-to-maturity investments	–	–	50	50
Debt securities classified as receivables	–	216,784	900	217,684
Other assets	–	67	1	68
Total	283	230,196	4,563	235,042
Deposits from banks and other financial institutions	–	1,524	1,181	2,705
Derivative financial liabilities	–	–	1	1
Deposits from customers	245	7,578	17,278	25,101
Interests payable	2	162	241	405
Other liabilities	–	–	2	2
Total	247	9,264	18,703	28,214
Significant other sheet items with related parties as at 31 December 2017:				
Guarantee granted by the Group (Note)	180	–	–	180
Investment in shares of structured entities sponsored by the Group	–	138	–	138

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

48 Related party relationships and transactions (continued)

(b) Transactions between the Group and other related parties (continued)

(ii) Related party transactions (continued)

The Group's material transactions and balances with China Everbright Group and the above related parties during the reporting period are summarised as follows: (continued)

	China Everbright Group (Note V 48(a))	Affiliated Companies Affiliated	Others	Total
Transactions with related parties for the year ended 31 December 2016:				
Interest income	–	701	27	728
Interest expense	(8)	(1,289)	(676)	(1,973)
Balances with related parties as at 31 December 2016:				
Interests receivable	2	593	2	597
Loans and advances to customers	–	5,142	–	5,142
Derivative financial assets	–	1	–	1
Available-for-sale financial assets	190	3,000	–	3,190
Held-to-maturity investments	–	–	950	950
Debt securities classified as receivables	–	196,460	60	196,520
Total	192	205,196	1,012	206,400
Deposits from banks and other financial institutions	–	8,434	1,204	9,638
Derivative financial liabilities	–	–	1	1
Deposits from customers	460	9,308	12,477	22,245
Interests payable	–	109	317	426
Other liabilities	–	4	–	4
Total	460	17,855	13,999	32,314
Significant other sheet items with related parties as at 31 December 2016:				
Guarantee granted by the Group (Note)	180	–	–	180

Note:

As at 31 December 2017, the Bank has guarantee obligations relating to the China Everbright Group's outstanding interest obligation of RMB180 million (31 December 2016: RMB180 million) due to one of the state-owned commercial banks.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

48 Related party relationships and transactions (continued)

(c) China Investment Corporation, Central Huijin Investment Ltd. and its affiliates

Approved by the State Council of the PRC, China Investment Corporation was established on 29 September 2007 with a registered capital of USD200 billion. Central Huijin Investment Ltd. ("Huijin") is a wholly owned subsidiary of CIC and exercises its rights and obligations as an investor on behalf of CIC.

Huijin was incorporated as a wholly state-owned investment company on 16 December 2003. It was registered in Beijing with a registered capital of RMB828,209 million. Apart from equity investments as authorised by the State Council of the PRC, it does not engage in any other commercial operations.

The Group's transactions with CIC, Huijin and its affiliates mainly include deposit taking, purchase and sale of debt securities, money market transactions and inter-bank clearing. These transactions are priced based on market prices and conducted under normal commercial terms.

The Group has issued subordinated debts, financial bonds, interbank deposits and certificates of deposits which are bearer bonds tradable in the secondary market. Accordingly, the Group has no information in respect of the amount of the debts held by these banks and other financial institutions as at the end of the year.

The Group's material transactions and balances with CIC, Huijin and its affiliates during the reporting period are summarised as follows:

	2017	2016
Interest income	3,905	7,140
Interest expense	(5,488)	(5,981)

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

48 Related party relationships and transactions (continued)

(c) China Investment Corporation, Huijin and its affiliates (continued)

	31 December 2017	31 December 2016
Deposits with banks and other financial institutions	6,300	71,096
Placements with banks and other financial institutions	9,983	14,523
Financial assets at fair value through profit or loss	454	651
Derivative financial assets	1,320	2,041
Financial assets held under resale agreements	17,049	10,210
Interests receivable	1,727	4,355
Loans and advances to customers	1,883	341
Available-for-sale financial assets	35,840	48,964
Held-to-maturity investments	29,293	13,601
Debt securities classified as receivables	13,917	111,896
Other assets	825	570
Deposits from banks and other financial institutions	88,385	256,275
Placements from banks and other financial institutions	36,655	33,821
Derivative financial liabilities	1,995	973
Financial assets sold under repurchase agreements	3,397	15,627
Deposits from customers	19,238	13,271
Interests payable	1,140	1,643
Other liabilities	4	1

(d) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities"). Transactions with other state-owned entities include but are not limited to: lending and deposit taking; taking and placing of inter-bank balances; entrusted lending and other custody services; insurance and securities agency, and other intermediary services; sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the Group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The Group's pricing strategy and approval processes for major products and services, such as loans, deposits and commission income, do not depend on whether or not the customers are state-owned entities. Having considered the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

48 Related party relationships and transactions (continued)

(e) Key management personnel

	31 December 2017 RMB'000	31 December 2016 RMB'000
Remuneration	20,131	20,116
Retirement benefits	1,175	1,182
– Basic social pension insurance	669	636

The total compensation packages for senior management of the Group for the year ended 31 December 2017 have not been finalised in accordance with the regulations of the PRC relevant authorities. The remuneration not yet accrued is not expected to have a significant impact on the Group's and the Bank's 2017 financial statements.

(f) Loans and advances to directors, supervisors and officers

Loans and advances to directors, supervisors and officers of the Group disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance, with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), are as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Aggregate amount of relevant loans outstanding as at the year end	13,594	14,034
Maximum aggregate amount of relevant loans outstanding during the year	17,016	18,686

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

49 Statement of financial position of the Company

	Note V	31 December 2017	31 December 2016
Assets			
Cash and deposits with the central bank		353,544	381,493
Deposits with banks and other financial institutions		42,525	230,394
Precious mental		40,352	22,720
Placements with banks and other financial institutions		152,278	130,214
Financial assets at fair value through profit or loss		24,073	7,791
Derivative financial assets		4,508	4,949
Financial assets held under resale agreements		91,441	67,000
Interests receivable		28,057	24,877
Loans and advances to customers		1,982,212	1,750,693
Available-for-sale financial assets		409,885	423,371
Held-to-maturity investments		345,317	258,200
Debt securities classified as receivables		514,576	627,678
Investments in subsidiaries	23	4,410	3,369
Fixed assets		12,244	11,977
Goodwill		1,281	1,281
Deferred tax assets		7,361	5,348
Other assets		15,128	12,164
Total assets		4,029,192	3,963,519

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

49 Statement of financial position of the Company (continued)

	31 December 2017	31 December 2016
Liabilities and equity		
Liabilities		
Due to the central bank	232,500	187,000
Deposits from banks and other financial institutions	579,031	834,288
Placements from banks and other financial institutions	61,592	48,879
Derivative financial liabilities	6,552	4,368
Financial assets sold under repurchase agreements	45,581	41,195
Deposits from customers	2,271,881	2,119,882
Accrued staff costs	8,242	7,631
Taxes payable	4,905	4,352
Interests payable	39,780	33,174
Debts securities issued	442,596	409,700
Other liabilities	34,174	24,592
Total liabilities	3,726,834	3,715,061
Equity		
Share capital	52,489	46,679
Other equity instrument	35,108	29,947
Capital reserve	53,533	33,365
Other comprehensive income	(1,769)	478
Surplus reserve	21,054	17,951
General reserve	51,442	50,633
Retained earnings	90,501	69,405
Total equity	302,358	248,458
Total liabilities and equity	4,029,192	3,963,519

Approved and authorised for issue by the board of directors on 28 March 2018.

Li Xiaopeng Chairman of the Board of Directors, Non-executive Director	Zhang Jinliang President Executive Director	Xie Rong Independent Non-executive Director

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

50 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, trade financing and deposit taking activities, agency services, cash management services, financial 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, deposit taking activities, bank card business, personal wealth management services, remittance services and securities agency services.

Financial market business

This segment covers the Group's financial market business. The financial market business enters into inter-bank money market transactions, repurchases transactions and inter-bank investments. It also trades in debt securities, derivatives and foreign currency trading for its own accounts. The financial market business segment also covers customer-driven derivatives and foreign currency trading, as well as management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent equity investments and related income.

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". Net interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expense".

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred to acquire property and equipment, intangible assets and other long-term assets.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

50 Segment reporting (continued)

(a) Segment results, assets and liabilities

	2017				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	21,022	24,043	15,885	–	60,950
Internal net interest income/(expense)	14,598	(11,210)	(3,388)	–	–
Net interest income	35,620	12,833	12,497	–	60,950
Net fee and commission income	6,160	22,598	2,016	–	30,774
Net trading gains	–	–	(2,751)	–	(2,751)
Dividend income	–	–	–	6	6
Net gains/(losses) arising from investment securities	–	2	(195)	–	(193)
Foreign exchange gains	227	91	2,146	–	2,464
Other net operating income	586	48	22	112	768
Operating income	42,593	35,572	13,735	118	92,018
Operating expenses	(13,192)	(15,368)	(2,083)	(159)	(30,802)
Operating profit before impairment	29,401	20,204	11,652	(41)	61,216
Impairment losses on assets	(13,802)	(6,163)	(605)	–	(20,570)
Profit before tax	15,599	14,041	11,047	(41)	40,646
Other segment information					
– Depreciation and amortisation	(956)	(1,044)	(136)	–	(2,136)
– Capital expenditure	2,635	1,652	202	–	4,489

	31 December 2017				
	Corporate banking	Retail Banking	Financial market business	Others	Total
Segment assets	1,536,604	993,822	1,547,255	1,685	4,079,366
Segment liabilities	1,917,280	533,771	1,329,807	1,929	3,782,787

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

50 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

	2016				
	Corporate banking	Retail banking	Financial market business	Others	Total
Operating income					
External net interest income	17,357	18,266	29,665	–	65,288
Internal net interest income/(expense)	17,015	(5,936)	(11,079)	–	–
Net interest income	34,372	12,330	18,586	–	65,288
Net fee and commission income	6,810	16,957	4,345	–	28,112
Net trading gains	–	–	223	–	223
Dividend income	–	–	–	5	5
Net gains/(losses) arising from investment securities	–	21	(282)	–	(261)
Foreign exchange gains (losses)	786	105	(553)	–	338
Other net operating income	420	66	18	156	660
Operating income	42,388	29,479	22,337	161	94,365
Operating expenses	(13,545)	(14,072)	(2,515)	(122)	(30,254)
Operating profit before impairment	28,843	15,407	19,822	39	64,111
Impairment losses on assets	(17,806)	(5,031)	(1,094)	–	(23,931)
Profit before tax	11,037	10,376	18,728	39	40,180
Other segment information					
– Depreciation and amortisation	(1,011)	(1,036)	(135)	–	(2,182)
– Capital expenditure	2,348	757	105	–	3,210

	31 December 2016				
	Corporate banking	Retail Banking	Financial market business	Others	Total
Segment assets	1,434,132	813,671	1,764,652	684	4,013,139
Segment liabilities	1,726,670	493,530	1,546,910	1,844	3,768,954

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

50 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Reconciliation between segment assets, liabilities and total assets and total liabilities:

	Note V	31 December 2017	31 December 2016
Segment assets		4,079,366	4,013,139
Goodwill	25	1,281	1,281
Deferred tax assets	26	7,596	5,622
Total assets		4,088,243	4,020,042
Segment liabilities		3,782,787	3,768,954
Dividend payables	37	20	20
Total liabilities		3,782,807	3,768,974

(b) Geographical information

The Group operates principally in mainland China with branches located in 31 provinces, autonomous regions and municipalities directly under the central government, with subsidiaries located in Wuhan city of Hubei Province, Shaoshan city of Hunan Province, Huai'an city of Jiangsu Province, Hong Kong and Luxembourg.

Non-current assets include property and equipment, land use rights and intangible assets. In presenting of geographical information, non-current assets are allocated based on geographical location of the underlying assets. Operating income is allocated based on the locations of the branches which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

– "Yangtze River Delta" refers to the following areas serviced by subsidiary and branches of the Bank: Huai'an Evergright, Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo and Wuxi;

– "Pearl River Delta" refers to the following areas serviced by branches of the Bank: Guangzhou, Shenzhen, Fuzhou, Xiamen and Haikou;

– "Bohai Rim" refers to the following areas serviced by branches of the Bank: Beijing, Tianjin, Shijiazhuang, Jinan, Qingdao and Yantai;

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

50 Segment reporting (continued)

(b) Geographical information (continued)

– "Central" refers to the following areas serviced by subsidiaries and branches of the Bank: Everbright Financial Leasing and Shaoshan Evergright, Zhengzhou, Taiyuan, Changsha, Wuhan, Hefei and Nanchang;

– "Western" refers to the following areas serviced by branches of the Bank: Xi'an, Chengdu, Chongqing, Kunming, Nanning, Hohhot, Urumchi, Guiyang, Lanzhou, Xining and Lhasa;

– "Northeastern" refers to the following areas serviced by branches of the Bank: Heilongjiang, Changchun, Shenyang and Dalian;

– "Overseas" refers to the following areas serviced by branches of the Bank: Hong Kong, Seoul, Luxembourg; and

– "Head Office" refers to the headquarter of the Group.

	Operating Income								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Over-seas	Total
2017	14,011	13,093	29,818	12,787	8,811	8,659	3,752	1,087	92,018
2016	15,423	13,599	28,793	12,974	9,563	8,865	4,509	639	94,365

	Non-current Asset (Note(i))								
	Yangtze River Delta	Bohai Rim	Head Office	Central	Pearl River Delta	Western	North eastern	Over-seas	Total
31 December 2017	2,496	901	5,466	3,730	1,158	1,261	920	89	16,021
31 December 2016	2,617	970	4,914	3,388	1,202	1,067	966	54	15,178

Note:

(i) Including fixed assets, intangible assets and land use right.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 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 and guarantees granted.

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 senior management is responsible for the implementation of the development strategy, risk strategy and risk management policies set by the board of directors. The senior management is responsible for the improvement of risk management system and establishment of risk management policies and rules. The senior management is responsible for establishment of procedures and standards to identify, measure, evaluate, monitor and control credit risks. And the senior management is responsible for the management of all types of risks and ensure that the business activities of the Bank are consistent with the risk strategy, risk appetite and risk policies adopted by the board of directors.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

The business lines of the Group are directly responsible for the management of credit risk. The Risk Management Department is responsible for the development of risk management policies and procedures, and is responsible for the monitoring and management of credit risks. The Internal Audit Department is responsible for auditing the performance of duties of business lines and the Risk Management Department, specifically as follows:

– The Corporate Banking Department, Small and Micro Enterprises Finance Department, Retail Banking Department and other business lines carry out corporate and retail business in accordance with the risk management policies and procedures of the Group. The business lines are directly responsible for the management of credit risk, they are the first line of defense of internal control. The business lines independently control the customer relationship and the whole process of specific business in its duration, and they are firstly responsible for the compliance and security of the business.

– The main responsible departments for credit risk management are the Risk Management Department, Credit Approval Department, Credit Management Department, and Special Assets Resolution Department. They are the second line of defense of internal control in credit risk management, and they are responsible for the overall supervision of credit risk management. The functional departments of credit risk management determine their functional positioning in accordance with the basic procedures of "Policy and technology – Investigation and approval – During and post-lending monitoring – Collection and Resolution". The Risk Management Department is responsible for the planning and co-ordination of the overall risk management system of the Group, leading the development of the basic policies of credit risk management, leading the development of the credit system and procedures, and leading the development of general industry-specific limits policy which covers credit business; The Credit Approval Department is responsible for overall planning and management of the evaluation and approval of general risk business for corporate and institutions, banks and other financial institutions, and of general credit limits for group clients. The Credit Approval Department is responsible for approving credit lines which beyond the approval authority of branches and those managed directly by head quarter. The credit approval authority of group clients, corporate and institutions, banks and other financial institutions is independent from the business line departments to ensure the independence of the credit approval; The Credit Management Department is responsible for post-lending monitoring and risk warnings monitoring of corporate business, and is responsible for the control and management of the key phases of credit business and guide the operation of credit payment review of the Bank; The Retail Business Department is responsible for review and approval, post-lending monitoring and risk warnings monitoring of retail business. An office which is independent from business development function has been set up in the Retail Business Department to ensure the independence of credit risk management; The Special Assets Resolution Department is responsible for collection and disposal of non-performing assets, management and disposal of repossessed assets of the Group, etc.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

– The Internal Audit Department is the third line of defense of credit risk management, and undertakes the responsibility of supervision and performance evaluation.

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 businesses, the Group has established industry-specific limits for credit approval. It has put in place dynamic 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, the Group has established standardized system and procedures for credit evaluating and approving in accordance with the principle of separation of duties for approval and lending as well as hierarchical approval principle. All credit applications are approved by designated credit officers. In the loan payment phase, independent responsible department has been established to manage and control the payment of the loan, ensuring that the payment conform with the intended use of the loan approved; 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.

For personal credit operation business, the Group implemented control processes of "separation of review and approval, separation of approval and lending, separation of approval and mortgage registration, and separation of loan management and archival keeping" to effectively control the operational risk. During the pre-loan process, client managers are required to assess the income level, credit history, and repayment ability of the applicant to strengthen the credit evaluation of the applicant. During the review and approval process, the client managers forward the application and their recommendations to the loan-approval departments for further approval, a standardized review and approval policies and process in accordance with the principal of "separation of review and approval" and "hierarchical approval" have been established for this process. The Group monitors borrowers' repayment ability, the status of collaterals and any changes to their value during the post-lending phase. Once a loan becomes overdue, the Group starts the recovery process in accordance with its standardized loan recovery procedures.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Credit business (continued)

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate. The Group measures and manages the quality of the credit assets of the Group in accordance with the Guidelines of the Risk Classification of Loan issued by China Banking Regulatory Commission (CBRC).

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

Treasury Business

The Group sets credit limits for treasury operations based on the credit risk inherent in the products, counterparties and geographical areas. Credit risk exposure is closely monitored on a systematic and real-time basis, and credit limits are reviewed and revised 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, including derivative financial instruments. The maximum exposure to credit risk in respect of these off-balance sheet items as at the end of the year is disclosed in Note V 54(a).

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Treasury Business (continued)

(ii) Financial assets analysed by credit quality are summarised as follows:

	31 December 2017					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investments(*)	Others(**)
Impaired						
Individually assessed gross amount	22,785	714	16	–	1,565	316
Provision for impairment losses	(14,219)	(533)	(16)	–	(949)	(138)
Sub-total	8,566	181	–	–	616	178
Collectively assessed gross amount	9,607	–	–	–	–	1,179
Provision for impairment losses	(6,251)	–	–	–	–	(90)
Sub-total	3,356	–	–	–	–	1,089
Overdue but not impaired						
– Less than 3 months (inclusive)	16,321	2	–	–	640	–
– Between 3 months and 6 months (inclusive)	2,419	113	–	–	–	–
– Over 6 months	2,707	–	350	–	–	–
Gross amount	21,447	115	350	–	640	–
Provision for impairment losses	(4,267)	(28)	–	–	(160)	–
Sub-total	17,180	87	350	–	480	–
Neither overdue nor impaired						
Gross amount	1,978,217	56,900	193,250	91,441	1,298,907	50,133
Provision for impairment losses	(26,501)	(804)	(30)	–	(2,067)	(390)
Sub-total	1,951,716	56,096	193,220	91,441	1,296,840	49,743
Total	1,980,818	56,364	193,570	91,441	1,297,936	51,010

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Treasury Business (continued)

(ii) *Financial assets analysed by credit quality are summarised as follows* (continued):

	31 December 2016					
	Loans and advances to customers	Finance lease receivables	Deposits/ placements with banks and other financial institutions	Financial assets held under resale agreements	Investments(*)	Others(**)
Impaired						
Individually assessed gross amount	21,412	501	16	–	4,074	279
Provision for impairment losses	(11,285)	(403)	(16)	–	(1,092)	(106)
Sub-total	10,127	98	–	–	2,982	173
Collectively assessed gross amount	7,290	–	–	–	–	1,216
Provision for impairment losses	(3,758)	–	–	–	–	(94)
Sub-total	3,532	–	–	–	–	1,122
Overdue but not impaired						
Gross amount						
– Less than 3 months (inclusive)	15,352	71	–	–	–	–
– Between 3 months and 6 months (inclusive)	3,083	44	–	–	–	–
– Over 6 months	6,656	98	350	–	1	–
Gross amount	25,091	213	350	–	1	–
Provision for impairment losses	(4,519)	(139)	–	–	–	–
Sub-total	20,572	74	350	–	1	–
Neither overdue nor impaired						
Gross amount	1,741,485	56,355	358,609	67,000	1,316,614	38,528
Provision for impairment losses	(24,072)	(967)	(24)	–	(1,497)	(394)
Sub-total	1,717,413	55,388	358,585	67,000	1,315,117	38,134
Total	1,751,644	55,560	358,935	67,000	1,318,100	39,429

* *Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.*

** *Others comprise precious mental, derivative financial assets, interests receivable, assets from wealth management business recorded in other assets, and other receivables.*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Treasury Business (continued)

(iii) *Credit rating*

The distribution according to the credit quality of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	31 December 2017	31 December 2016
Carrying value		
Individually assessed and impaired		
Gross amount	16	16
Provision for impairment losses	(16)	(16)
Sub-total	–	–
Overdue but not impaired		
– grade A to AAA	350	350
Sub-total	350	350
Neither overdue nor impaired		
– grade A to AAA	193,039	383,144
– grade B to BBB	2,608	32,069
– unrated (Note)	89,014	10,372
Sub-total	284,661	425,585
Total	285,011	425,935

Note: Mainly represent placements with other financial institutions and debt securities held under resale agreements with other financial institutions.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(a) Credit risk (continued)

Treasury Business (continued)

(iii) Credit rating (continued)

The Group adopts a credit rating approach in managing the credit risk of the debt securities portfolio. Debt securities are rated with reference to Bloomberg Composite, or the 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 the end of the year are as follows:

	31 December 2017	31 December 2016
Carrying value		
Individually assessed and impaired		
Gross amount	1,564	1,509
Provision for impairment losses	(948)	(745)
Sub-total	616	764
Neither overdue nor impaired Bloomberg Composite		
– grade AAA	722	687
– grade AA- to AA+	17	536
– grade A- to A+	6,715	4,981
– grade lower than A-	11,442	3,767
Sub-total	18,896	9,971
Other agency ratings		
– grade AAA	181,244	180,112
– grade AA- to AA+	301,343	296,321
– grade A- to A+	589	2,330
– grade lower than A-	–	2,373
– unrated	11,445	11,160
Sub-total	494,621	492,296
Total	514,133	503,031

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, 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 as well as the market risk tolerance level recommended by senior management. The Group is primarily exposed to market risk in its treasury business. The Financial Market Department is responsible for the Group's investments and proprietary trading business. The Assets and Liability Management Department is responsible for monitoring and managing the interest rate risk and foreign exchange risk on a daily basis. The Risk Management Department is responsible for formulating the market risk management policies and procedures, as well as identifying, measuring and monitoring the Group's market risk.

The Group classified the transactions as the banking book transactions and trading book transactions. The identification, measurement, monitoring and controls over the relevant market risks are based on the nature and characteristics of these books. The trading book transactions consist of the Group's investments which are acquired or incurred primarily for the purpose of selling in the near term, or for the purpose of short-term profit taking. The banking book transactions represent non-trading businesses. Sensitivity analysis, scenario analysis and foreign currency gap analysis are the main tools employed by the Group to measure and monitor the market risk in its trading book transactions. Sensitivity gap analysis, stress testing and effective duration analysis are the main tools used by the Group to measure and monitor the market risk of its non-trading businesses.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

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.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(b) Market risk (continued)

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 Assets and Liability Management Department and Risk Management Department of the Group are 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.

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.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the reporting period and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, depending on which is earlier:

	31 December 2017						
	Effective interest rate (Note)	Total	Non–interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.48%	353,703	15,235	338,468	–	–	–
Deposits with banks and other financial institutions	3.39%	44,754	–	44,754	–	–	–
Placements with banks and other financial institutions	3.39%	148,816	–	77,947	70,459	410	–
Financial assets held under resale agreements	3.31%	91,441	–	91,441	–	–	–
Loans and advances to customers	4.44%	1,980,818	28,755	1,597,817	328,240	23,815	2,191
Finance lease receivables	4.69%	56,364	265	55,775	17	307	–
Investments (Note)	4.13%	1,297,936	1,890	352,130	158,508	693,726	91,682
Others	–	114,411	111,004	–	–	–	3,407
Total assets	4.00%	4,088,243	157,149	2,558,332	557,224	718,258	97,280
Liabilities							
Due to the central bank	3.10%	232,500	–	9,500	223,000	–	–
Deposits from banks and other financial institutions	4.03%	577,447	–	509,851	67,596	–	–
Placements from banks and other financial institutions	2.70%	106,798	6	72,046	34,746	–	–
Financial assets sold under repurchase agreements	2.68%	45,581	–	44,177	1,404	–	–
Deposits from customers	1.93%	2,272,665	3,504	1,850,016	305,381	113,757	7
Debt securities issued	4.01%	445,396	–	233,425	92,685	56,421	62,865
Others	–	102,420	90,308	9,534	2,108	469	1
Total liabilities	2.68%	3,782,807	93,818	2,728,549	726,920	170,647	62,873
Asset-liability gap	1.32%	305,436	63,331	(170,217)	(169,696)	547,611	34,407

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(i) The following tables indicate the effective interest rates for the reporting period and the assets and liabilities as at the end of the year by the expected next repricing dates or by maturity dates, depending on which is earlier (continued) :

	31 December 2016						
	Effective interest rate (Note)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets							
Cash and deposits with the central bank	1.49%	381,620	14,831	366,789	–	–	–
Deposits with banks and other financial institutions	2.86%	232,630	–	166,543	66,087	–	–
Placements with banks and other financial institutions	3.20%	126,305	–	41,249	84,646	410	–
Financial assets held under resale agreements	2.98%	67,000	–	65,000	2,000	–	–
Loans and advances to customers	4.57%	1,751,644	23,124	1,359,000	350,397	15,924	3,199
Finance lease receivables	3.99%	55,560	44	54,023	749	89	655
Investments (Note)	4.03%	1,318,100	1,862	237,364	424,925	562,974	90,975
Others	–	87,183	84,166	2,073	810	134	–
Total assets	3.92%	4,020,042	124,027	2,292,041	929,614	579,531	94,829
Liabilities							
Due to the central bank	3.00%	187,000	–	22,000	165,000	–	–
Deposits from banks and other financial institutions	2.85%	830,354	–	678,441	151,913	–	–
Placements from banks and other financial institutions	2.45%	95,501	23	57,029	38,449	–	–
Financial assets sold under repurchase agreements	2.23%	41,195	–	40,448	747	–	–
Deposits from customers	1.98%	2,120,887	6,824	1,581,014	327,249	205,798	2
Debt securities issued	3.27%	412,500	–	106,911	276,090	6,599	22,900
Others	–	81,537	73,439	6,549	996	553	–
Total liabilities	2.33%	3,768,974	80,286	2,492,392	960,444	212,950	22,902
Asset-liability gap	1.59%	251,068	43,741	(200,351)	(30,830)	366,581	71,927

Note:

– *Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.*

– *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.*

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(b) Market risk (continued)

Interest rate risk (continued)

(ii) Interest rate sensitivity analysis

The Group uses sensitivity analysis to measure the impact of changes in interest rate on the Group's net profit or loss and equity. As at 31 December 2017, assuming other variables remain unchanged, an increase in estimated interest rate of one hundred basis points will cause the Group's net profit to decrease by RMB3,637 million (31 December 2016: RMB2,442 million), and equity to decrease by RMB4,506 million (31 December 2016: RMB5,257 million); a decrease in estimated interest rate of one hundred basis points will cause the Group's net profit to increase by RMB3,652 million (31 December 2016: RMB2,448 million), and equity to increase by RMB4,694 million (31 December 2016: RMB5,436 million).

The sensitivity analysis above is based on a static interest rate risk profile of the Group's assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how 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 the end of the year apply to all derivative and non-derivative financial instruments of the Group;

– At the end of the year, an interest rate movement of one hundred basis points is based on the assumption of interest rates movement over the next 12 months;

– There is a parallel shift in the yield curve with the changes in interest rates;

– There are no other changes to the assets and liabilities portfolio;

– Other variables (including exchange rates) remain unchanged; and

– The analysis does not take into account the effect of risk management measures taken by the management.

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

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk Management (continued)

(b) Market risk (continued)

Foreign currency risk

The Group's foreign currency risk mainly arises from the foreign currency portfolio within the treasury's proprietary investments, and other foreign currency exposures. The Group manages foreign currency risk by spot and forward foreign exchange transactions, swap transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the year are as follows:

	31 December 2017			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total
Assets				
Cash and deposits with the central bank	347,639	5,624	440	353,703
Deposits with banks and other financial institutions	32,776	7,882	4,096	44,754
Placements with banks and other financial institutions	110,803	32,973	5,040	148,816
Financial assets held under resale agreements	91,441	–	–	91,441
Loans and advances to customers	1,895,655	51,288	33,875	1,980,818
Finance lease receivables	55,282	1,082	–	56,364
Investments (Note (i))	1,263,076	28,442	6,418	1,297,936
Others	108,692	5,064	655	114,411
Total assets	3,905,364	132,355	50,524	4,088,243
Liabilities				
Due to the central bank	232,500	–	–	232,500
Deposits from banks and other financial institutions	577,173	103	171	577,447
Placements from banks and other financial institutions	44,478	41,967	20,353	106,798
Financial assets sold under repurchase agreements	45,581	–	–	45,581
Deposit from customers	2,143,894	107,276	21,495	2,272,665
Debt securities issued	425,697	16,801	2,898	445,396
Others	95,820	5,411	1,189	102,420
Total liabilities	3,565,143	171,558	46,106	3,782,807
Net position	340,221	(39,203)	4,418	305,436
Off-balance sheet credit commitments	750,286	41,829	8,497	800,612
Derivative financial instruments (Note (ii))	(46,269)	45,861	(1,612)	(2,020)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group's currency exposures as at the end of the year are as follows (continued):

	31 December 2016			
	RMB	US Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total
Assets				
Cash and deposits with the central bank	376,515	4,606	499	381,620
Deposits with banks and other financial institutions	217,010	12,734	2,886	232,630
Placements with banks and other financial institutions	108,790	14,987	2,528	126,305
Financial assets held under resale agreements	67,000	–	–	67,000
Loans and advances to customers	1,683,451	45,396	22,797	1,751,644
Finance lease receivables	54,833	727	–	55,560
Investments (Note (i))	1,295,605	20,138	2,357	1,318,100
Others	83,825	2,470	888	87,183
Total assets	3,887,029	101,058	31,955	4,020,042
Liabilities				
Due to the central bank	187,000	–	–	187,000
Deposits from banks and other financial institutions	829,623	677	54	830,354
Placements from banks and other financial institutions	55,207	30,650	9,644	95,501
Financial assets sold under repurchase agreements	41,195	–	–	41,195
Deposit from customers	2,031,212	72,528	17,147	2,120,887
Debt securities issued	405,481	5,049	1,970	412,500
Others	75,911	4,210	1,416	81,537
Total liabilities	3,625,629	113,114	30,231	3,768,974
Net position	261,400	(12,056)	1,724	251,068
Off-balance sheet credit commitments	676,940	19,249	5,928	702,117
Derivative financial instruments (Note (ii))	(15,445)	14,656	1,462	673

Note:

(i) 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) Derivative financial instruments reflect the net notional amounts of derivatives.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

The Group conducts a substantial portion of its business in RMB, with certain transactions denominated in USD, HKD and, to a much lesser extent, other currencies. As at the financial reporting date, the exchange rate changes of the currencies to which the Group had significant exposure are as follows:

	31 December 2017	31 December 2016
Exchange rates against RMB for the HK dollars	0.8334	0.8956
Exchange rates against RMB for the US dollars	6.5124	6.9450

The Group uses sensitivity analysis to measure the potential effect of changes in the Group's exchange rates on the Group's net profit or loss and equity. As at 31 December 2017, assuming other variables remain unchanged, an appreciation of one hundred basis points in the US dollar against the RMB would increase both the Group's net profit and equity by RMB11 million (31 December 2016: RMB6 million); a depreciation of one hundred basis points in the US dollar against the RMB would decrease both the Group's net profit and equity by RMB11 million (31 December 2016: RMB6 million).

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB;

- The fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;

- The exchange rates against RMB for the US dollars and HK dollars change in the same direction simultaneously. Due to the immaterial proportion of the Group's total assets and liabilities denominated in currencies other than US dollars and HK dollars, other foreign currencies are converted into US dollars in the above sensitivity analysis;

- The foreign exchange exposures calculated include spot and forward foreign exchange exposures and swaps;

- Other variables (including interest rates) remain unchanged; and

- The analysis does not take into account the effect of risk management measures taken by the management.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk management (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

Due to the assumptions adopted, actual changes in the Group's net profit or loss and equity resulting from the increase or decrease in foreign exchange rates might vary from the estimated results of this sensitivity analysis.

Price risk

Equity instrument investment price risk refers to the fair value of the equity securities by stock index level and the change of the value of individual securities and reduce risk The Group is exposed to equity price risk on its available for sale listed equity securities. As at 31 December 2017, a 5 basis points variance in listed equity prices from the year end price would impact the net asset by RMB8,851 million (31 December 2016: RMB962 million). For those available for sale equities considered impaired, the impact would be taken to the statement of profit and loss.

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. This risk exists even if a bank's solvency remains strong. In accordance with liquidity policies, the Group monitors the future cash flows and maintains liquid assets of high quality.

The Asset and Liability Management Committee ("ALMC") is responsible for managing the Group's overall liquidity risk. The ALMC, chaired by the President of the Bank, is responsible for the formulation of the liquidity policies in accordance with regulatory requirements and prudential principles. Such policies include:

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk management (continued)

(c) Liquidity risk (continued)

- 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 various 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 maximisation 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 Assets and Liability Management Department is responsible for executing liquidity risk management policies. It is also responsible for identifying, measuring, monitoring and managing medium- and long-term working capital on a regular basis, and for formulating liquidity management strategies. The Assets and Liability Management Department is responsible for monitoring working capital on a daily basis and ensuring the liquidity. Significant disbursement or portfolio changes must be reported to the ALMC on a timely basis.

The Group will proactively promote the growth of stable sources of liabilities such as core deposits, and will also continue to implement the optimization of liability structure through issuing various bonds as appropriate. The Group will expand liability channels and enhance diversified proactive liability capability to improve the Bank's stability of capital sources, and ensure the appropriate total amounts, stable sources, diversified structure and matching terms, thus preventing market risks effectively.

The Group mainly applies liquidity gap analysis to measure liquidity risk. The Group will continue to focus on limit monitoring and dynamic control, and apply different scenario stress tests to assess the impacts from liquidity risks and develop effective contingency plan to respond to various possible liquidity risks.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk management (continued)

(c) Liquidity risk (continued)

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

	31 December 2017							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	311,084	42,619	–	–	–	–	–	353,703
Deposit with banks and other financial institutions	350	13,736	14,739	15,108	–	–	821	44,754
Placement with banks and other financial institutions	–	–	65,773	12,174	70,459	410	–	148,816
Financial asset held under resale agreements	–	–	91,441	–	–	–	–	91,441
Loans and advances to customers	21,518	295,944	57,647	112,607	432,562	488,521	572,019	1,980,818
Finance lease receivables	263	1	1,258	2,789	10,990	32,155	8,908	56,364
Investments (*)	2,983	235,917	23,652	82,275	158,448	702,052	92,609	1,297,936
Others	67,144	10,774	3,369	13,879	8,857	6,949	3,439	114,411
Total assets	403,342	598,991	257,879	238,832	681,316	1,230,087	677,796	4,088,243
Liabilities								
Due to the central bank	–	–	6,000	3,500	223,000	–	–	232,500
Deposits from banks and other financial institutions	–	123,571	119,431	266,849	67,596	–	–	577,447
Placements from banks and other financial institutions	–	6	28,853	43,193	34,746	–	–	106,798
Financial assets sold under repurchase agreements	–	–	41,602	2,575	1,404	–	–	45,581
Deposit from customers	–	1,148,728	156,707	284,619	429,516	253,088	7	2,272,665
Debt securities issued	–	–	60,218	144,029	93,010	59,673	88,466	445,396
Others	–	32,094	20,596	10,364	17,437	20,677	1,252	102,420
Total liabilities	–	1,304,399	433,407	755,129	866,709	333,438	89,725	3,782,807
Long/(Short) position	403,342	(705,408)	(175,528)	(516,297)	(185,393)	896,649	588,071	305,436
Notional amount of derivative financial instruments	–	–	162,872	102,675	390,928	85,756	60	742,291

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the year (continued):

	31 December 2016							
	Indefinite	Repayable on demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets								
Cash and deposits with the central bank	308,698	72,922	–	–	–	–	–	381,620
Deposit with banks and other financial institutions	350	107,399	31,397	22,904	70,280	300	–	232,630
Placement with banks and other financial institutions	–	–	18,513	22,736	84,646	410	–	126,305
Financial asset held under resale agreements	–	–	61,383	3,617	2,000	–	–	67,000
Loans and advances to customers	33,626	209,601	65,262	118,212	458,974	423,127	442,842	1,751,644
Finance lease receivables	116	–	581	3,467	10,677	32,785	7,934	55,560
Investments (*)	1,187	25,500	82,826	125,547	425,244	566,894	90,902	1,318,100
Others	47,671	7,711	2,099	12,514	13,659	3,514	15	87,183
Total assets	391,648	423,133	262,061	308,997	1,065,480	1,027,030	541,693	4,020,042
Liabilities								
Due to the central bank	–	–	20,000	2,000	165,000	–	–	187,000
Deposits from banks and other financial institutions	–	185,240	260,340	232,861	151,783	130	–	830,354
Placements from banks and other financial institutions	–	23	24,481	32,548	38,449	–	–	95,501
Financial assets sold under repurchase agreements	–	–	34,686	5,762	747	–	–	41,195
Deposit from customers	–	1,082,376	133,953	266,783	392,789	244,984	2	2,120,887
Debt securities issued	–	–	14,322	91,689	276,990	6,599	22,900	412,500
Others	–	29,393	12,748	6,033	15,986	16,848	529	81,537
Total liabilities	–	1,297,032	500,530	637,676	1,041,744	268,561	23,431	3,768,974
Long/(Short) position	391,648	(873,899)	(238,469)	(328,679)	23,736	758,469	518,262	251,068
Notional amount of derivative financial instruments	–	–	90,122	57,065	269,778	32,811	–	449,776

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative finance liabilities, loan commitments and credit card commitments at the end of the year:

	31 December 2017							
	Carrying amount	Contractual undiscounted cash flow	Repayable demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	232,500	240,061	–	6,189	3,614	230,258	–	–
Deposits from banks and other financial institutions	577,447	584,305	123,574	120,486	270,895	69,350	–	–
Placements from banks and other financial institutions	106,798	111,049	6	29,633	45,191	36,219	–	–
Financial assets sold under repurchase agreements	45,581	45,773	–	41,763	2,588	1,422	–	–
Deposits from customers	2,272,665	2,334,012	1,150,012	159,665	289,817	447,494	287,014	10
Debt securities issued	445,396	490,928	–	60,400	147,687	97,886	78,428	106,527
Other financial liabilities	55,662	56,343	31,337	14,282	334	2,571	6,389	1,430
Total non-derivative financial liabilities	3,736,049	3,862,471	1,304,929	432,418	760,126	885,200	371,831	107,967
Derivative financial liabilities								
Derivative financial instruments settled on net basis		67	–	1	(8)	25	49	–
Derivative financial instruments settled on gross basis								
cash inflow		423,456	–	164,759	97,627	158,994	2,076	–
cash outflow		(425,538)	–	(164,784)	(98,886)	(159,862)	(2,006)	–
Total derivative financial liabilities		(2,082)	–	(25)	(1,259)	(868)	70	–

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative finance liabilities, loan commitments and credit card commitments at the end of the year (continued):

	31 December 2016							
	Carrying amount	Contractual undiscounted cash flow	Repayable demand	Within one month	Between one month and three months	Between three months and one year	Between one year and five years	More than five years
Non-derivative financial liabilities								
Due to the central bank	187,000	191,049	–	20,384	2,061	168,604	–	–
Deposits from banks and other financial institutions	830,354	838,112	185,240	261,502	235,769	155,458	143	–
Placements from banks and other financial institutions	95,501	96,998	23	24,604	32,904	39,467	–	–
Financial assets sold under repurchase agreements	41,195	41,289	–	34,693	5,836	760	–	–
Deposits from customers	2,120,887	2,188,318	1,082,865	137,719	276,461	411,482	279,788	3
Debt securities issued	412,500	432,330	–	14,560	93,814	281,899	7,080	34,977
Other financial liabilities	43,593	43,771	29,056	8,301	1,263	1,715	2,907	529
Total non-derivative financial liabilities	3,731,030	3,831,867	1,297,184	501,763	648,108	1,059,385	289,918	35,509
Derivative financial liabilities								
Derivative financial instruments settled on net basis		58	–	–	3	(3)	58	–
Derivative financial instruments settled on gross basis								
cash inflow		357,306	–	87,299	55,589	213,782	636	–
cash outflow		(356,541)	–	(87,112)	(55,112)	(213,685)	(632)	–
Total derivative financial liabilities		765	–	187	477	97	4	–

The above analysis of cash utilization of undiscounted contracts may differ from the actual cash flows of these financial instruments.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk management (continued)

(c) Liquidity risk (continued)

The following tables provide an analysis of off-balance sheet assets of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	31 December 2017			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	209,518	621	5,107	215,246
Guarantees, acceptances and other credit commitments	554,075	27,640	3,651	585,366
Total	763,593	28,261	8,758	800,612

	31 December 2016			
	Within one year	Between one year and five years	More than five years	Total
Loan and credit card commitments	151,752	1,071	5,654	158,477
Guarantees, acceptances and other credit commitments	519,871	21,320	2,449	543,640
Total	671,623	22,391	8,103	702,117

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51 Risk management (continued)

(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 operational risk management system to identify, assess, control, manage and report operational risk. The framework covers all business functions ranging from corporate banking, retail banking, trading, corporate finance, settlement, intermediary business, asset management and all supporting functions, including human resource management, financial management, legal affairs, anti-money laundering and administration management. The key elements of the framework are listed as below:

– A multi-level operational risk management framework with segregation of duties between front and back offices under the leadership of senior management;

– A series of operational risk management policies covering all businesses on the basis of core operational risk management policy;

– A set of standard operational procedures covering all products and services, which is practical, traceable and can be re-performed, investigated and remedied;

– A series of operational risk management tools, including Risk Control Self-Assessment (RCSA), Key Risk Index (KRI), Loss Event Collection and IT system monitoring;

– An operational risk management culture, the core values of the culture is that effective risk management could create value. It is supported with a team of operational risk management professionals across all branches, businesses and functions;

– 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.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

52 Fair value

(a) Methods and assumptions for measurement of fair value

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities and equity investments

The fair values of debt securities and equity investments that are traded in an active market are based on their quoted market prices in an active market at the end of the year. The fair values of unlisted equity investments are estimated using the applicable price/earning ratios of comparable listed companies, after adjustment for the specific circumstances of the issuers.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the year.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices at the end of the year, or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the year.

(iv) Derivative financial instruments

The fair values of foreign currency forward and swap contracts are determined by the difference between the present value of the forward price and the contractual price at the end of the year, or is based on quoted market prices. The fair values of interest rate swaps are estimated as the present value of estimated future cash flows. The yield curve is based on the optimised price between the broker's quoted price and Reuters' quoted price.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

52 Fair value (continued)

(b) Fair value measurement

(i) Financial assets

The Group's financial assets mainly consist of cash and deposits with the central bank, precious mental, receivables with banks and other financial institutions, loans and advances to customers, finance lease receivables, and investments.

Deposits with the central bank and receivables with banks and other financial institutions are mostly priced at market interest rates and due within one year. Accordingly, the carrying amounts approximate the fair values.

Loans and advances to customers, finance lease receivables and debt securities classified as receivables are mostly priced at floating interest rates close to the PBOC rates. Accordingly, the carrying amounts approximate the fair values.

Available-for-sale investments and held for trading investments are mostly stated at fair value. The carrying amount and fair value of held-to-maturity investments are disclosed in Note V 21.

(ii) Financial liabilities

The Group's financial liabilities mainly include payables to banks and other financial institutions, deposits from customers and subordinated debts issued. Except the bonds issued, the carrying amounts of other financial liabilities approximate their fair values.

The tables below summarise the carrying amounts and fair values of "Debt securities" classified as held to maturity, and "Bonds issued" not presented at fair value on the statement of financial position.

	As at 31 December			
	Carrying value		Fair value	
	2017	2016	2017	2016
Financial assets				
Debt securities				
– Held to maturity	344,617	257,500	335,894	258,891
Financial liabilities				
Bonds issued	445,396	412,500	438,041	409,156

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

52 Fair value (continued)

(b) Fair value measurement (continued)

(ii) Financial liabilities (continued)

Fair values of held to maturity debt securities are based on market prices or broker/dealer price quotations. Where this information is not available, the Bank will perform valuation by referring to prices from valuation service providers or on the basis of discounted cash flows models. Valuation parameters include market interest rates, expected future default rates, prepayment rates and market liquidity. The fair values of RMB bonds are mainly determined based on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd.

The fair values of issued bonds are calculated based on quoted market prices. For those bonds where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

(c) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value in the statements of financial position across the three levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The definitions of three levels are as below:

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). This level includes bonds and a majority of OTC derivative contracts. Input parameters like ChinaBond interbank yield curves or LIBOR yield curves are sourced from ChinaBond, Bloomberg and Shanghai Clearing House.

Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs). This level includes complicated derivative contracts and structured deposits with one or more than one significant unobservable component.

This hierarchy requires the use of observable open market data wherever possible. The Group tries it best to consider relevant and observable market prices in valuations.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

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.

Assets and liabilities measured at fair value

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– debt instruments	2,017	22,168	–	24,185
Financial assets designated at fair value through profit or loss	–	–	11	11
Derivative financial assets				
– foreign currency derivatives	–	4,075	–	4,075
– interest rate derivatives	8	426	4	438
Available-for-sale financial assets				
– debt instruments	17,851	127,480	–	145,331
– fund instruments and others	235,917	32,400	–	268,317
– equity instruments	110	–	–	110
Precious mental	–	21	–	21
Total	255,903	186,570	15	442,488
Liabilities				
Deposits from customers				
– Structured deposits designated at fair value	–	292,593	–	292,593
Derivative financial liabilities				
– foreign currency derivatives	–	6,179	–	6,179
– interest rate derivatives	–	370	3	373
Total	–	299,142	3	299,145

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– debt instruments	534	7,209	–	7,743
Financial assets designated at fair value through profit or loss	–	–	48	48
Derivative financial assets				
– foreign currency derivatives	–	4,536	–	4,536
– interest rate derivatives	1	398	15	414
Available-for-sale financial assets				
– debt instruments	11,742	226,046	–	237,788
– fund instruments and others	25,500	161,294	–	186,794
– equity instruments	149	–	–	149
Precious mental	–	43	–	43
Total	37,926	399,526	63	437,515
Liabilities				
Deposits from customers				
– Structured deposits designated at fair value	–	226,890	–	226,890
Derivative financial liabilities				
– foreign currency derivatives	–	4,012	–	4,012
– interest rate derivatives	–	330	26	356
Total	–	231,232	26	231,258

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movement during the year ended 31 December 2017 in the balance of Level 3 fair value measurements is as follows:

	Financial assets designated at fair value through profit or loss	Derivative financial assets	Total	Derivative financial liabilities	Total
1 January 2017	48	15	63	(26)	(26)
Total gains or losses:					
In profit or loss for the current year	1	(11)	(10)	23	23
Purchases	5	–	5	–	–
Sales and settlements	(43)	–	(43)	–	–
31 December 2017	11	4	15	(3)	(3)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	–	(11)	(11)	23	23

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Assets and liabilities measured at fair value (continued)

The movement during the year ended 31 December 2016 in the balance of Level 3 fair value measurements is as follows:

	Financial assets designated at fair value through profit or loss	Derivative financial assets	Total	Derivative financial liabilities	Total
1 January 2016	113	13	126	(20)	(20)
Total gains or losses:					
In profit or loss for the current year	(7)	3	(4)	(6)	(6)
Purchases	5	–	5	–	–
Sales and settlements	(63)	(1)	(64)	–	–
31 December 2016	48	15	63	(26)	(26)
Total gains or losses for the year included in profit or loss for assets and liabilities held at the end of the reporting year	(6)	3	(3)	(6)	(6)

During the year ended 31 December 2017 and 31 December 2016, there were no significant transfers into or out of Level 3.

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

52 Fair value (continued)

(c) Fair value hierarchy (continued)

Financial assets and liabilities not measured at fair value

The tables below summarise the three levels' fair values of "Debt securities" classified as held to maturity, and "Bonds issued" not presented at fair value on the statement of financial position.

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities				
– Held to maturity	4,590	331,304	–	335,894
Financial liabilities				
Bonds issued	26,090	411,951	–	438,041

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities				
– Held to maturity	4,370	254,521	–	258,891
Financial liabilities				
Bonds issued	–	409,156	–	409,156

(d) Valuation of financial instruments with significant unobservable inputs

Financial instruments valued with significant unobservable inputs are primarily interest derivatives. These financial instruments are valued using cash flow discount model. The models incorporate various non-observable assumptions such as discount rate and market rate volatilities.

As at 31 December 2017, the carrying amount of financial instrument valued with significant unobservable inputs were immaterial, and the effects of changes in significant unobservable assumptions to reasonably possible alternative assumptions were also immaterial.

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

53 Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. 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 entrustors and receives fee income for the services provided. The entrusted assets are not the assets of the Group and are not recognised in the statements of financial position.

	31 December 2017	31 December 2016
Entrusted loans	147,268	120,016
Entrusted funds	147,268	120,016

54 Commitments and contingent liabilities

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, credit card limits, bank acceptances, letters of credit and financial guarantees.

The contractual amounts of loans and credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. Acceptances comprise undertaking's 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.

	31 December 2017	31 December 2016
Loan commitments		
Original contractual maturity within one year	9,744	10,809
Original contractual maturity more than one year (inclusive)	16,714	19,580
Credit card commitments	188,788	128,088
Sub-total	215,246	158,477
Acceptances	403,717	401,420
Letters of guarantees	103,295	81,424
Letters of credit	78,169	60,611
Guarantees	185	185
Total	800,612	702,117

(Expressed in millions of Renminbi, unless otherwise stated)

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

54 Commitments and contingent liabilities (continued)

(a) Credit commitments (continued)

The Group may be exposed to credit risk in all the above credit businesses. Group management periodically assesses the 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) Credit risk-weighted amount

	31 December 2017	31 December 2016
Credit risk-weighted amount of credit commitments	313,101	265,689

The credit risk weighted amount of credit commitments represent to the amount calculated with reference to the Regulation Governing Capital of Commercial Banks (Provisional) issued by the CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights ranged from 0% to 100% for credit commitments.

(c) Operating lease commitments

As at the end of the year, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

	31 December 2017	31 December 2016
Within one year (inclusive)	2,258	2,319
After one year but within two years (inclusive)	1,981	2,170
After two years but within three years (inclusive)	1,719	1,863
After three years but within five years (inclusive)	2,843	2,842
After five years	2,387	2,791
Total	11,188	11,985

(d) Capital commitments

As at the balance sheet dates, the Group's authorised capital commitments are as follows:

	31 December 2017	31 December 2016
Contracted but not paid		
– Purchase of property and equipment	921	1,203
Approved but not contracted for		
– Purchase of property and equipment	1,371	1,260
Total	2,292	2,463

V NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

54 Commitments and contingent liabilities (continued)

(e) Underwriting and redemption commitments

The Group has no unexpired commitments for underwriting bonds as at 31 December 2017.

As an underwriting agent of the PRC government bonds, the Group has the responsibility to buy back those bonds it previously sold should the holders decide to make an early redemption of the bonds held. The redemption price for a bond at any time before its maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interests payable to the bond holders is calculated in accordance with the relevant MOF and PBOC rules. The redemption price may be different from the fair value of similar financial instruments traded at the redemption date.

As at balance sheet day, the underwritten, sold and immature national bonds' redemption commitments at nominal value are as follows:

	31 December 2017	31 December 2016
Redemption commitments	8,642	8,308

(f) Forward purchase and sale commitments

The Group has unexpired forward purchase and sale commitments as follows:

	31 December 2017	31 December 2016
Forward purchase and sale commitments	–	550

(g) Outstanding litigations and disputes

As at 31 December 2017, the Group was the defendant in certain pending litigation and disputes with gross claims of RMB719 million (31 December 2016: RMB845 million). Provisions have been made for the estimated losses of such litigations based upon the opinions of the Group's internal and external legal counsels (NoteV. 37(d)). The Group considers that the provisions made are reasonable and adequate.

55 Subsequent Events

There are no significant events after the reporting period.

56 Comparative figures

Certain comparative figures have been adjusted to conform with changes in presentations in current period.

Unaudited Supplementary Financial Information

(Expressed in millions of Renminbi, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purposes only.

1 Liquidity Coverage Ratio, Liquidity Ratio and Leverage Ratio

Liquidity Coverage Ratio

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks (Provisional), the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018. During the transitional period, such ratio shall reach 70%, 80% and 90% by the end of 2015, 2016 and 2017, respectively.

	31 December 2017
Liquidity coverage ratio	101.96%
High quality liquid assets	250,014.42
Net cash outflows in 30 days from the end of the year	245,201.03

Liquidity Ratio*

	As at 31 December 2017	Average for The year ended 31 December 2017	As at 31 December 2016	Average for The year ended 31 December 2016
RMB current assets to RMB current liabilities	59.93%	56.88%	63.18%	57.92%
Foreign current assets to foreign current liabilities	62.45%	53.90%	78.81%	58.56%

* *Liquidity ratio is calculated in accordance with the banking level.*

Leverage Ratio

	31 December 2017
Leverage Ratio	6.45%

Pursuant to the Leverage Ratio Management of Commercial Banks issued by the CBRC and was 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.

2 Currency concentrations

	31 December 2017			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	132,355	30,140	20,384	182,879
Spot liabilities	(171,558)	(33,786)	(12,320)	(217,664)
Forward purchases	231,721	22,458	2,138	256,317
Forward sales	(185,860)	(16,526)	(9,682)	(212,068)
Net long position	6,658	2,286	520	9,464
Net structural position	11	26	38	75

	31 December 2016			
	US Dollars (RMB equivalent)	HK Dollars (RMB equivalent)	Others (RMB equivalent)	Total (RMB equivalent)
Spot assets	101,058	19,617	12,338	133,013
Spot liabilities	(113,114)	(20,347)	(9,884)	(143,345)
Forward purchases	186,248	5,563	7,679	199,490
Forward sales	(171,592)	(1,355)	(10,425)	(183,372)
Net long position	2,600	3,478	(292)	5,786
Net structural position	11	28	8	47

The net structural position of the Group includes the structural positions, denominated in foreign currency, of the Bank's Hong Kong, Seoul and Luxembourg branch. Structural assets mainly include fixed assets.

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, deposits and placements from banks and other financial institutions and debt investments.

A country or geographical area is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose Head Office is located in another country.

(Expressed in millions of Renminbi, unless otherwise stated)

3 International claims (continued)

	As at 31 December 2017			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	51,220	287	26,256	77,763
– of which attributed to Hong Kong	4,473	166	21,048	25,687
Europe	2,436	–	9,503	11,939
North and South America	2,795	194	11,621	14,610
Total	56,451	481	47,380	104,312

	As at 31 December 2016			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding mainland China	28,302	355	22,478	51,135
– of which attributed to Hong Kong	15,081	197	19,606	34,884
Europe	1,715	131	12,553	14,399
North and South America	2,812	263	1,629	4,704
Total	32,829	749	36,660	70,238

4 Gross amount of overdue loans and advances

(a) By geographical segments

	31 December 2017	31 December 2016
Pearl River Delta	6,772	9,329
Yangtze River Delta	5,146	6,079
Western	5,066	5,556
Head Office	4,899	3,333
Bohai Rim	4,240	4,740
Central	4,127	4,895
Northeastern	3,236	1,775
Overseas	8	8
Total	33,494	35,715

4 Gross amount of overdue loans and advances (continued)

(b) By overdue days

	31 December 2017	31 December 2016
Gross loans and advances which have been overdue with respect to either principal or interest for periods of:		
– between 3 and 6 months (inclusive)	7,114	7,099
– between 6 months and 1 year (inclusive)	9,906	13,781
– over 1 year	16,474	14,835
Total	33,494	35,715
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	0.35%	0.40%
– between 6 months and 1 year (inclusive)	0.49%	0.77%
– over 1 year	0.81%	0.82%
Total	1.65%	1.99%

The above analysis includes loans and advances overdue for more than 90 days. Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

(c) Collaterals of loans and advances past due but not impaired

	31 December 2017	31 December 2016
Covered portion of loans and advances past due but not impaired	10,131	14,041
Uncovered portion of loans and advances past due but not impaired	11,316	11,050
Total loans and advances past due but not impaired	21,447	25,091
Of which: Current market value of collateral held against the covered portion of loans and advances past due but not impaired	27,801	26,509

5 Non-bank mainland China exposure

The Bank is a commercial bank incorporated in mainland China with its banking business conducted in mainland China. As at 31 December 2017, substantial amounts of the Group's exposures arose from businesses with mainland China entities or individuals.

Address Book of Head Office and Branches

Name	Address	P.C.	Tel.	Fax
Head office	Everbright Center, No. 25, Taipingqiao Avenue, Xicheng District, Beijing	100033	010-63636363	010-63639066
Beijing Branch	No. 1, Xuanwumen Neidajie, Xicheng District, Beijing	100031	010-66567699	010-66567411
Tianjin Branch	Annex Building of Zhonglian Building, No. 83, Qufu Ave., Heping District, Tianjin City	300041	022-23308501	022-23300229
Shanghai Branch	China Everbright Bank Building, No. 1118, Shiji Ave., Pudong New District, Shanghai City	200120	021-63606360	021-23050088
Chongqing Branch	No. 168, Minzu Road, Yuzhong District, Chongqing City	400010	023-63792773	023-63792764
Shijiazhuang Branch	No. 56, Yuhua East Road, Shijiazhuang City	050000	0311-88628882	0311-88628883
Taiyuan Branch	No. 295, Yingze Road, Yingze District, Taiyuan City	030001	0351-3839008	0351-3839108
Huhhot Branch	Tower D, Dongfangjunzuo, Chilechuan Road, Saihan District, Huhhot, Inner Mongolia Autonomous Region	010096	0471-4955882	0471-4955800
Dalian Branch	No. 4, Wuwu Road, Zhongshan District, Dalian City	116001	0411-39037007	0411-39037015
Shenyang Branch	No. 156, Hepingbei Street, Heping District, Shenyang City	110003	024-83255555	024-23283218
Changchun Branch	No. 2677, Jiefang Road, Chaoyang District, Changchun City	130061	0431-88400080	0431-88400121
Heilongjiang Branch	No. 278, Dongdazhi Street, Nangang District, Harbin City	150001	0451-53618775	0451-53618775
Nanjing Branch	No. 120, Hanzhong Road, Gulou District, Nanjing City	210029	025-84787610	025-84712699
Suzhou Branch	No. 188, Xinghai Street, Industrial Park District, Suzhou City	215021	0512-68662988	0512-68668766
Wuxi Branch	No. 1, Renmin Zhonglu, Wuxi City	214023	0510-81802528	0510-81802535
Hangzhou Branch	Zheshang Times Building, No. 1, Miduqiao Road, Gongshu District, Hangzhou City	310006	0571-87895358	0571-87895367
Ningbo Branch	No. 1 Building, Hengfu Plaza, No. 828, Fuming Road, Jiangdong District, Ningbo City	315040	0574-87300888	0574-87317230
Hefei Branch	No. 200, Changjiang Xilu, Hefei City	230001	0551-65101888	0551-65101726
Fuzhou Branch	No. 148, Beihuan Zhonglu, Gulou District, Fuzhou City	350003	0591-87837378	0591-87835838
Xiamen Branch	China Everbright Bank Building, No. 81, Hubin Nanlu, Siming District, Ximan City	361004	0592-2221666	0592-2237788
Nanchang Branch	No. 399, Guangchang Nanlu, Nanchang City	330006	0791-86662030	0791-86665448
Jinan Branch	No. 85, Jingqi Road, Shizhong District, Jinan City	250001	0531-86155965	0531-86155800
Qingdao Branch	No. 69, Hongkong Xilu, Shinan District, Qingdao City	266071	0532-83893801	0532-83893800

Name	Address	P.C.	Tel.	Fax
Yantai Branch	No. 111, Nandajie, Zhifu District, Yantai City	264000	0535-6658506	0535-6261796
Zhengzhou Branch	No. 18, Nongye Road, Jinshui District, Zhengzhou City	450008	0371-65766000	0371-65766000
Wuhan Branch	No. 143-144, Yanjiang Ave., Jiangan District, Wuhan City	430014	027-82796303	027-82801976
Changsha Branch	No. 142, Furong Zhonglu, Tianxin District, Changsha City	410015	0731-85363527	0731-85523677
Guangzhou Branch	21F, China Everbright Bank Building, No. 685, Tianhe Beilu, Tianhe District, Guangzhou City	510635	020-38730066	020-38730049
Shenzhen Branch	No. 18, Zizhu Qidao, Zhuzilin Silu, Futian District, Shenzhen City	518040	0755-83053388	0755-83242955
Nanning Branch	Oriental Mahatton Plaza, No. 52-1, Jinhu Road, Qingxiu District, Nanning City	530021	0771-5568106	0771-5568100
Haikou Branch	Ground Floor, World Trade Center D/E, Shimao Donglu, Jinmao District, Haikou City	570125	0898-68539999	0898-68520711
Chengdu Branch	No. 79, Dacisi Road, Jinjiang District, Chengdu City	610017	028-86665566	028-86720299
Kunming Branch	No. 28, Renmin Zhonglu, Wuhua District, Kunming City	650021	0871-63111068	0871-63111078
Xi'an Branch	No. 33, Hongguang Street, Lianhu District, Xi'an City	710002	029-87236013	023-87236010
Urumqi Branch	No. 165, Nanhu Donglu, Urumqi City	830063	0991-6765678	0991-6765678
Guiyang Branch	West Tower No.3, Guiyang International Financial Center at east of Changling North Road and north of Lincheng East Road, Guanshan Lake District, Guiyang City	550001	0851-85914438	0851-85911499
Lanzhou Branch	No. 555, Donggang West Road, Chengguan District, Lanzhou City	730030	0931-8688600	0931-8688701
Yinchuan Branch	No. 219, Jiefang West Road, Xingqing District, Yinchuan City	750001	0951-8773000	0951-8773080
Xining Branch	No. 57-7 Wusi West Road, Chengxi District, Xining City	810008	0971-6363263	0971-6236234
Lhasa Branch	No. 1, Floor 1 of Building 1, Taihe International Culture Square, JInzhu Mid-Road, Chengguan District, Lhasa City	850000	0891-6597000	0891-6597000
Hong Kong Branch	30/F., Far East Finance Center, No. 16, Harcourt Road, Hong Kong		00852-31239888	00852-21432188
Seoul Branch	14/F, Wing Fung Building, 41 Cheonggyecheon Road, Jongno gu, Seoul, Korea	03188	00822-37883700	00822-37883701
Luxembourg Branch	10, Avenue Emile Reuter, Luxembourg	L-2420	00352-2666888	00352-266688124

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