

CZBANK 浙商银行

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

Stock Code : 2016

Stock Code of Preference Shares : 4610



| 2017 | ANNUAL REPORT

IMPORTANT NOTICE

The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management of the Company confirm that the contents in this report are true, accurate and complete and have no false representations, misleading statements or material omissions, and they will individually and collectively accept legal responsibility for such contents.

The 12th meeting of the fourth session of the Board of the Company, held on March 26, 2018, approved the Annual Report of China Zheshang Bank Co., Ltd. for 2017. The Company has 17 Directors, among which 17 Directors attended the meeting in person, which was in compliance with the requirements of the Company Law of the People's Republic of China and the Articles of Association of the Company. 11 Supervisors of the Company attended the meeting.

PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers (both being auditors of the Company) have audited the 2017 annual financial report of the Company prepared in accordance with the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards, and have issued standard unqualified audited reports, respectively.

Unless otherwise illustrated in this report, the currency for any amounts herein is RMB. Certain amounts and percentage numbers in this report have been rounded. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

This report is prepared in Chinese and English, respectively, and the Chinese version shall prevail if any ambiguities arise from the understanding of the Chinese and English texts.

The Board of the Company has proposed to declare a cash dividend of RMB1.70 per 10 shares (tax inclusive) for 2017, payable in RMB to holders of Domestic Shares and in HK dollars to holders of H Shares. The above proposal on dividend distribution is subject to consideration and approval at the 2017 annual general meeting of the Company.

Shen Renkang (Chairman of the Bank), Liu Xiaochun (President of the Bank), Liu Long (Chief Financial Officer of the Bank) and Jing Feng (Director of the Financial Department) confirm that the financial report in the annual report is true, accurate and complete.

SIGNIFICANT RISK WARNING

Please refer to the section headed "Management Discussion and Analysis – Risk Management" of this report for information about major risks faced and measures to be taken by the Company.

The forward-looking statements about matters like future plans of the Company in this report do not constitute substantive commitments to the investors, and the investors and related persons shall maintain sufficient risk awareness in this regard, and shall understand the difference among plans, forecasts and commitments.



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Definitions

“Company”, “Bank”, “our Bank”, “China Zheshang Bank” or “CZBank”:	China Zheshang Bank Co., Ltd.
“Articles of Association”:	the articles of association of China Zheshang Bank Co., Ltd.
“Shareholder(s)”:	the shareholder(s) of ordinary shares of the Company
“Board” or “Board of Directors”:	the board of directors of the Company
“Board of Supervisors”:	the board of supervisors of the Company
“Senior Management”:	the senior management of the Company
“Director(s)”:	the director(s) of the Company
“Supervisor(s)”:	the supervisor(s) of the Company
“CBIRC”:	China Banking and Insurance Regulatory Commission
“CSRC”:	China Securities Regulatory Commission
“Hong Kong Stock Exchange”:	The Stock Exchange of Hong Kong Limited
“Company Law”:	the Company Law of the People’s Republic of China
“Commercial Banking Law”:	The Commercial Banking Law of the People’s Republic of China
“SFO”:	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Hong Kong Listing Rules”:	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Model Code”:	the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 to Hong Kong Listing Rules
“Domestic Shares”:	ordinary shares issued by the Company with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in RMB
“H Shares”:	overseas-listed foreign shares in the share capital of the Company with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars. Such shares of the Company are listed and traded on the Hong Kong Stock Exchange
“Offshore Preference Shares”:	the US\$2,175,000,000 Non-Cumulative Perpetual Offshore Preference Shares (Stock Code 4610) at the dividend yield of 5.45% issued by the Company on March 29, 2017
“Share(s)”:	Domestic Shares and H Shares of the Company
“RMB” or “Renminbi”:	Renminbi, the lawful currency of the PRC
“HKD” or “HK\$” or “Hong Kong dollars” or “HK dollars”:	Hong Kong dollars, the lawful currency of Hong Kong
“Zheyin Financial Leasing”:	Zhejiang Zheyin Financial Leasing Co., Ltd., a subsidiary of the Company, in which the Company holds 51% of equity interest
“The Group”:	the Company and its subsidiary
“Third Five-Year” plan:	Development Plan for 2016 to 2020 of China Zheshang Bank Co., Ltd.

Company Profile

- 1. Company name in Chinese:** 浙商银行股份有限公司 (Abbreviation in Chinese: 浙商银行)
Company name in English: CHINA ZHESHANG BANK CO., LTD.
(Abbreviation in English: CZBank)
- 2. Legal Representative:** Shen Renkang
- 3. Registered and office address:** No. 288, Qingchun Road, Hangzhou, Zhejiang, the PRC
Postcode: 310006
E-mail: ir@czbank.com
Website: www.czbank.com
Customer service hotline: 95527
Tel for investor relations management: 86-571-88268966
Fax: 86-571-87659826
- 4. Principal place of business in Hong Kong:** 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
- 5. Authorized representatives:** Xu Renyan, Liu Long
- 6. Secretary to the Board:** Liu Long
Joint company secretaries: Liu Long, Wong Yat Tung
- 7. H Shares**
Stock exchange where the securities are listed: Hong Kong Stock Exchange
Stock abbreviation: CZBank
Stock code: 2016
Offshore Preference Shares
Stock exchange where the securities are listed: Hong Kong Stock Exchange
Stock abbreviation: CZB 17USDPREF
Stock code: 4610
- 8. Share registrar:**
H Shares: Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong
Domestic Shares: China Securities Depository and Clearing Corporation Limited
Building A, Hengao Centre, No.17, Taipingqiao Street,
Xicheng District, Beijing
- 9. Legal advisers:**
As to PRC Laws: Zhejiang T&C Law Firm
As to Hong Kong Laws: Freshfields Bruckhaus Deringer
- 10. Compliance Adviser:** ABCI Capital Limited

Company Profile

11. Accounting firms engaged by the Company:

Domestic auditor:

PricewaterhouseCoopers Zhong Tian LLP
Office address: 11/F, PricewaterhouseCoopers Center,
No. 202 Hubin Road, Shanghai
Signing accountants: Zhu Yu, Ye Jun

International auditor:

PricewaterhouseCoopers
Office address: 22/F, Prince's Building, Central,
Hong Kong

12. Place of maintenance of this report:

Website of Hong Kong Stock Exchange for publishing this report:

Office of the Board of the Company
(No. 288, Qingchun Road, Hangzhou, Zhejiang, the PRC)
www.hkexnews.hk

13. Other information about the Company:

Uniform social credit code: 91330000761336668H
Financial institution license serial number:
B0010H133010001
Registration date: July 26, 2004



Corporate Overview

CZBank is one of the 12 nationwide joint-stock commercial banks approved by the CBIRC. Headquartered in Hangzhou, Zhejiang, CZBank is the only nationwide joint-stock commercial bank headquartered in Zhejiang. CZBank officially commenced operations on August 18, 2004 and was listed on the Hong Kong Stock Exchange on March 30, 2016 (Stock Code: 2016). As of December 31, 2017, CZBank has established 213 branch outlets, effectively covering the Yangtze River Delta, the Bohai Rim, the Pearl River Delta and certain areas in Midwestern China. On April 21, 2017, the first holding subsidiary of the Bank – Zheyin Financial Leasing officially commenced operations. On December 19, 2017, CZBank was awarded the banking license by Hong Kong Monetary Authority and became a licensed bank of Hong Kong, thus speeding up the pace of international layout.

Since the commencement of business operations, CZBank has been pursuing steady development based in Zhejiang according to General Secretary Xi Jinping's requirements proposed at the beginning of our incorporation. Consequently, CZBank has become a high-quality commercial bank with a solid foundation, strong profitability, rapid growth and prudent risk control. As of December 31, 2017, our total assets amounted to RMB1.54 trillion, the balance of customer deposits was RMB860.6 billion, and the total loans and advances to customers was RMB672.9 billion, representing an increase of 13.43%, 16.89% and 46.44% on a year-on-year basis; and the non-performing loan ratio was 1.15%. CZBank moved up 27 places to rank 131st in terms of tier-one capital and moved up 8 places to rank 109th in terms of total assets among the "Top 1000 World Banks 2017" released by the British magazine The Banker. China Chengxin International Credit Rating Co., Ltd. granted CZBank the highest AAA corporate credit rating in rating of financial institutions.

Development Strategies

Overall Goal of “Two Most”: The goal is to become the most competitive nationwide joint-stock commercial bank and Zhejiang’s most important financial platform.

“The Most Competitive Nationwide Joint-stock Commercial Bank” means to be a leading joint-stock bank that provides target customers with professional service, possess distinct competitive advantages on the ability for innovation, risk control, service provision in the market and value creation, match the identity of the national joint-stock commercial bank in term of scales, as well as provide support for sustainable development of professional ability.

“Zhejiang’s Most Important Financial Platform” means to be a representative financial group in Zhejiang featured by comprehensive functions, leading scale, good performance and sound reputation, and at the forefront of resources deployment, efficient service and model innovation, so as to become the strategic partner of all levels of governments, financial institutions, core enterprises and a large number of businesses in Zhejiang.

Being the most competitive commercial bank is the capability foundation for being the most important financial platform, while being the most important financial platform is the objective manifestation and significant support of being the most competitive commercial bank. The “Two Most” are causally interrelated.

Full-asset class operation strategy: The full-asset class operation strategy is a systematic operation strategy covering the front, middle and back office management and coordination, as well as a contingency operation system with clear orientation, flexible mechanism, diversified strategy and rich tools, which initiatively accommodates to the highly uncertain and fast-changing market environment.

At the internal business level, the Bank will break through the limitation of mainly focusing on credit assets, and adjust the allocation of credit assets, transaction assets, inter-bank assets, investment assets and assets on and off the balance sheet according to the changes in market and customer demand at any time, so as to reshape the balance sheet of the Bank through asset-driven-liability mode; at the customer service level, the Bank will break the boundaries of assets, liabilities and services, as well as companies, inter-bank, personal businesses and products, and integrate the financial activities into businesses and life of our customers to optimize their balance sheets, through which the Bank will form the competitiveness of quickly adapting to changes in the market and customer demand, thus to open up a diversified profit source and effectively balance the impacts of economic cycles and business fluctuations on our asset size and profitability, with the aim of achieving the leading growth in the industry, and ultimately reaching the overall objective of “Two Most”.

Strategic Positioning: The Company will innovate and cooperate, focus on customer base and business under the customer-centered concept; response flexibly to build a comprehensive, digital and horizontal organic organization; and keep abreast of the leading standards to become a medium-scale bank with the most featured competitive strengths.

Innovate and cooperate, focus on customer base and business under the customer-centered concept: the Company will adhere to innovation and cooperation and the customer-centered concept, consciously focus on aligning strategic resources in key areas and form distinctive competitive strengths in the dynamic market through the “horse racing mechanism”, thereby enhance competitiveness across the Bank.

Response flexibly to build a comprehensive, digital and horizontal organic organization: the flexible and responsive organic organization will be formed based on business models and support systems, which will promote internal business synergies and external integrated operations, achieve digital transformation linking internal and external business throughout front, middle and back office, and build a horizontal organization with streamlined structure and intensive management pattern.

Keep abreast of the leading standards to become a medium-scale bank with the most featured competitive strengths: being abreast of the industry’s highest standards, CZBank will gradually form its benchmarking system and apply it into the daily management through systematic learning, imitation and innovation, laying a foundation for building the featured competitive strengths.

Development Strategies

On April 10, 2018, Hong Kong Branch, the first overseas branch of the Bank, formally started operations, indicating a substantial progress made by the Bank in international strategic development. It is actively riding the wave of financial openness. As a linking platform and window for domestic and overseas businesses of the Bank, Hong Kong Branch will endeavor to provide services for “the Belt and Road Initiative” construction, development of special zone economy and construction of Guangdong-Hong Kong-Macao Greater Bay Area. It will become an important platform for the Bank to enhance global influence and brand reputation.



Shen Renkang, chairman, said that China Zhesang Bank would actively promote international arrangement and continuously enhance its global influence



Congratulations on Hong Kong Branch's opening



Hong Kong Tramways represents the culture symbol of Hong Kong and extends greets from China Zhesang Bank



Shen Renkang, chairman, Liu Xiaochun, president, and shareholders' representatives jointly cut the ribbon at the opening ceremony of Hong Kong Branch

Honors and Awards



<p>January 2017</p> <p>2016 Annual Bank Card Innovation Award <i>China Banking Association</i></p>	<p>January 2017</p> <p>Best IPO Award <i>China Financial Market</i></p>	<p>February 2017</p> <p>iF Design Award for the Brand Refreshing Project <i>iF Industries Forum Design</i></p>
	<p>February 2017</p> <p>2016 "Best Institution Award" for Credit Assets Registration & Circulation Business of the Banking Industry <i>Credit Assets Registration & Circulation Center of the Banking Industry</i></p>	<p>March 2017</p> <p>2016 Best Member in the Interbank Foreign Exchange Market <i>China Foreign Exchange Trade System</i></p>
<p>March 2017</p> <p>2016 Excellent Trader in the Interbank Local Currency Market <i>China Foreign Exchange Trade System</i></p>	<p>March 2017</p> <p>2016 Annual Emerging Technology Application Award <i>Caishiv China</i></p>	<p>March 2017</p> <p>2016 Annual Retail Finance Innovation Award <i>Caishiv China</i></p>
<p>March 2017</p> <p>Golden Chestnuts Award "Best Creativity Award" <i>China Financial Certification Authority (CFCA)</i></p>	<p>March 2017</p> <p>2016 First Prize of Financial Institutions in Supporting Zhejiang Economic and Social Development <i>The People's Government of Zhejiang Province</i></p>	<p>March 2017</p> <p>2016 Annual Excellent Financial Institution for Supporting Rural and Small Loans <i>The People's Government of Zhejiang Province</i></p>



Honors and Awards

April 2017

**North America 2017 APEX
Silver Prize for the Outlet
Image Refreshing and
Upgrading**
DSE (Digital Signage Expo)

April 2017

**First Prize among the
Outstanding Research Results
of the Banking Industry**
CBIRC

May 2017

**Annual Outstanding
Innovative Case of Financial
Brand**
Financial Times

June 2017

**2016 Annual Golden Bull
Wealth Management Bank
Award**
China Securities Journal

June 2017

**Top Ten Innovation Awards
for Financial Products (Retail
Business)
Top Ten Innovation Awards for
Financial Products (Corporate
Business)**
The Banker Magazine

June 2017

**Integrity Selling Bank
Award**
Cinsos Consultant

June 2017

**Best Social Responsible
Financial Institution Award
and Best Social Responsible
Outlet Award with Special
Contributions**
China Banking Association

July 2017

**2017 Junding Award for
Wealth Management Brands
of Chinese Banks**
Securities Times

July 2017

**2017 Asset Custody Joint-
Stock Bank with Most
Development Potential and
2017 Outstanding Asset
Management Joint-Stock Bank
of the Golden Shell Award**
21st Century Business Herald

July 2017

**Ranking 131st (in Terms of
Tier 1 Capital) and 109th
(in Terms of Total Assets)
among the "Top 1000 World
Banks"**
The Banker (UK)

Honors and Awards



August 2017

Best Social Media Application
The Asian Banker

August 2017

Red Dot Award for the Brand Refreshing Project
Design Zentrum Nordrhein Westfalen

August 2017

Best Brand Image Bank and Top Ten Direct Selling Banks
Sina.com

August 2017

“Best Comprehensive Wealth Management Capability Award”
“Best Return Award”
“Best Risk Control Award”
“Best Compliance Award”
China Banking Association

September 2017

The Fourth Prize in Financial Assessment of Nationwide Commercial Banks
The Banker Magazine

October 2017

The Second Prize in “2017 Best Investment Institutions of Foreign Currency Bonds in Asia”
The Asset Magazine

October 2017

The First Prize in 2017 Best Investors (China) of Foreign Currency Bonds in Asia
The Asset Magazine

November 2017

“Golden Bee” Social Network Marketing Gold Award (Best Customer Relationship Management Category)
The Advertiser Magazine

November 2017

Annual Best Bank Providing Liquidity Services
Treasury China



Honors and Awards

December 2017

**2017 Annual Asian
Outstanding Bank for
Comprehensive
Financial Services**
21st Century Business Herald

December 2017

**“2017 Annual Internet
Finance Innovation Award”
and
“2017 Annual Best Mobile
Banking Security Award”**
*China Financial Certification
Authority (CFCA)*

December 2017

**Annual Outstanding Award
for Innovative Wealth
Management Products**
Shanghai Securities Newspaper

December 2017

Best Trade Partner Bank
The Trade Finance Magazine

December 2017

**President Liu Xiaochun
Honored as the Annual Best
CEO**
The Asset Magazine

December 2017

**Annual Best Brand
Construction Bank**
*Financial Times and the
Institute of Finance and
Banking,
Chinese Academy of Social
Sciences*

December 2017

**The Fourth TMA Annual Most
Innovative Mobile Marketing
Brand**
*Creative Communication
Management (CCM)
Research
Centre of Peking University*

December 2017

**Outstanding Contribution
Award of the Banking
Development and Research
Committee**
China Banking Association

December 2017

**2017 Annual Outstanding
Asset Management Team**
*21st Century Business
Herald*

December 2017

**The First Prize of Research
Topics about Consumer
Rights Protection**
*CBIRC and China Banking
Association*

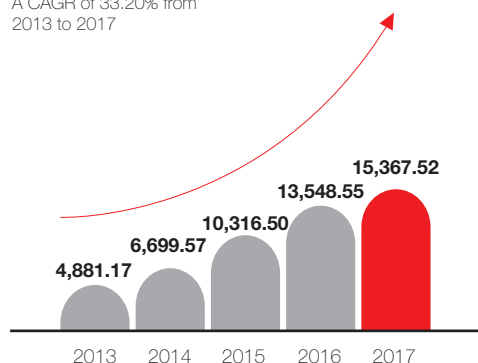
Financial Summary

(The financial data and indicators set forth in this annual report are prepared in accordance with IFRSs and presented in RMB, unless otherwise specified)

Continuously-growing business SCALE and steadily improved operating results

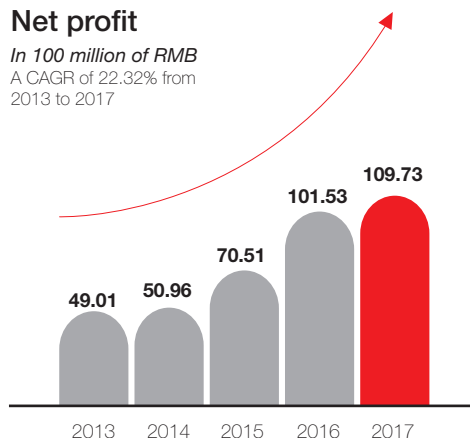
Total assets

In 100 million of RMB
A CAGR of 33.20% from
2013 to 2017



Net profit

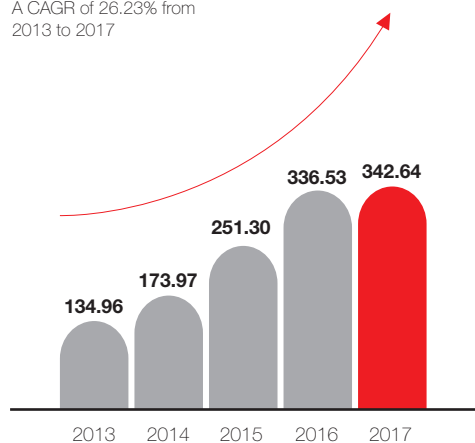
In 100 million of RMB
A CAGR of 22.32% from
2013 to 2017



increased Operating income and increased proportion of non-interest income

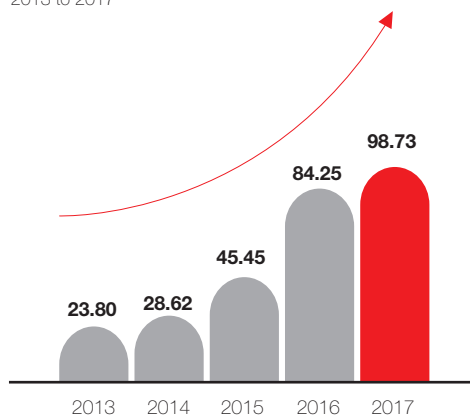
Operating income

In 100 million of RMB
A CAGR of 26.23% from
2013 to 2017



Net non-interest income

In 100 million of RMB
A CAGR of 42.71% from
2013 to 2017

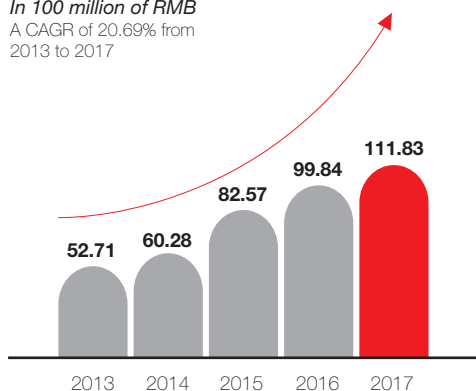


Financial Summary

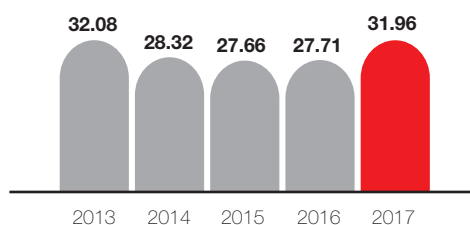
Reasonable increase in operating expenses and increase in cost-to-income ratio

Operating expenses

In 100 million of RMB
A CAGR of 20.69% from 2013 to 2017

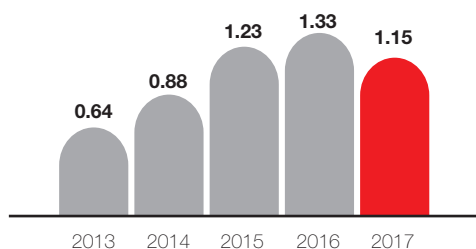


Cost-to-income ratio (%)

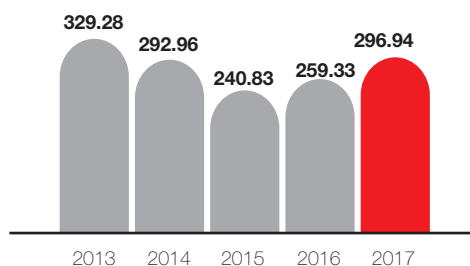


Prudent allowance for impairment and solid asset quality

Non-performing loan ratio (%)



Allowance to non-performing loans (%)



Financial Summary

FINANCIAL DATA

	2017	2016	2015	2014	2013
Operating results (RMB'000)					
Operating income	34,264,149	33,653,342	25,130,385	17,396,834	13,495,504
Profit before income tax	13,706,758	13,391,559	9,380,412	6,792,233	6,521,438
Net profit attributable to shareholders of the Bank	10,949,749	10,153,148	7,050,690	5,095,503	4,901,249
Scale indicators (at the end of the reporting period, RMB'000)					
Total assets	1,536,752,102	1,354,854,519	1,031,650,386	669,957,446	488,116,994
Total loans and advances to customers	672,878,934	459,493,053	345,422,861	259,022,644	217,137,318
Total liabilities	1,447,064,348	1,287,379,141	981,993,322	636,807,274	460,308,497
Customer deposits	860,619,457	736,243,698	516,026,296	363,279,888	319,794,777
Equity attributable to shareholders of the Bank	88,194,636	67,475,378	49,657,064	33,150,172	27,808,497
Per share (RMB)					
Net assets per share attributable to shareholders of the Bank at the end of the period ⁽¹⁾	4.08	3.76	3.42	2.88	2.42
Basic earnings per share attributable to shareholders of the Bank ⁽²⁾	0.57	0.59	0.54	0.44	0.45
Diluted earnings per share attributable to shareholders of the Bank	0.57	0.59	0.54	0.44	0.45
Profitability indicators (%)					
Return on average total assets ⁽³⁾	0.76	0.85	0.83	0.88	1.11
Return on average equity ⁽⁴⁾	14.64	17.34	17.03	16.72	19.40
Net interest margin	1.81	2.07	2.31	2.62	2.63
Net interest spread	1.62	1.89	2.12	2.38	2.41
Net non-interest income to operating income	28.81	25.03	18.08	16.45	17.64
Cost-to-income ratio ⁽⁵⁾	31.96	27.71	27.66	28.32	32.08
Asset quality indicators (%)					
Non-performing loan ratio ⁽⁶⁾	1.15	1.33	1.23	0.88	0.64
Allowance to non-performing loans ⁽⁷⁾	296.94	259.33	240.83	292.96	329.28
Allowance to total loans ⁽⁸⁾	3.43	3.44	2.95	2.59	2.10
Capital adequacy indicators (%)					
Core tier-one capital adequacy ratio	8.29	9.28	9.35	8.62	9.17
Tier-one capital adequacy ratio	9.96	9.28	9.35	8.62	9.17
Capital adequacy ratio	12.21	11.79	11.04	10.60	11.53



Financial Summary

Notes:

- (1) Net assets per share attributable to shareholders of the Bank = (net assets attributable to shareholders of the Bank minus other equity instruments) divided by total number of ordinary shares at the end of the period.
- (2) Basic earnings per share attributable to shareholders of the Bank = Net profit attributable to shareholders of ordinary shares of the Bank (excluding net profit attributable to shareholders of preference shares of the Bank for the year) divided by weighted average number of ordinary shares outstanding.
- (3) Return on average total assets = Net profit divided by average balance of total assets at the beginning and at the end of the period.
- (4) Return on average equity = Net profit attributable to shareholders of ordinary shares of the Bank (excluding net profit attributable to shareholders of preference shares the Bank for the year) divided by average balance of net assets attributable to shareholders of ordinary shares of the Bank at the beginning and at the end of the period (excluding other equity instruments).
- (5) Cost-to-income ratio = Operating expenses (excluding taxes and surcharges) divided by operating income.
- (6) Non-performing loan ratio = Balance of non-performing loans divided by total loans and advances to customers.
- (7) Allowance to non-performing loans = Balance of allowance for impairment losses on loans divided by balance of non-performing loans.
- (8) Allowance to total loans = Balance of allowance for impairment losses on loans divided by total loans and advances to customers.

Chairman's Statement

In 2017, the world economy recovered upward, and the major economies grew simultaneously. The domestic economy continued to maintain a stable and sound development trend with steady progress, and the supply-side structural reform was deepened continuously, but the stricter financial supervision and fiercer inter-bank competition imposed higher requirements on bank operation and management. In the face of the complicated and challenging domestic and foreign situations, CZBank, as guided by the overall objective of "Two Most" and by insisting on the "full-asset class operation strategy", initiatives accommodated to the new norm of economy, implemented the new development philosophy, grasped the new market opportunity, and thus achieved better operating results.

In 2017, CZBank rooted in the foundation and developed internal strengths to make all the indicators grow steadily. The Group's total assets reached RMB1,536.752 billion, representing a year-on-year increase of 13.43%; our operating income for the whole year amounted to RMB34.264 billion, representing a year-on-year increase of 1.81%; our net profit attributable to shareholders of the Bank amounted to RMB10.950 billion, representing an increase of 7.85%; and our non-performing loan ratio was 1.15%. The ranking of the Bank increased significantly to 109th (in terms of total assets) in the "Top 1000 World Banks" released by the British magazine "The Banker". As the domestic economy entered the new era of high-quality development, CZBank took the initiative to follow up the new trend of financial supervision, refer to the new inter-bank transformation actions, capitalize on the trend, gather strength, and take the lead in transformation, thereby promoting our development to a new stage.

We deepened the reform of systems and mechanisms, and persevered in transformation and development willpower. CZBank continuously clarified strategic orientation and enriched strategic connotation in our operation and management, so as to create a strategic system with CZBank characteristics, thereby providing the top-tier guidance for our transformation and development; by referring to the governance requirements for A+H listed companies, we revised our corporate governance system in systematic steps to enhance the standardization and effectiveness of our governance system, thereby providing system guarantee for our transformation and development; CZBank adopted a positive and prudent risk appetite, optimized the risk management system, innovated upon the risk management approaches, and intensified risk control capability, thereby providing internal control guarantee for our transformation and development; we implemented the comprehensive performance management program, improved the HR management system, enhanced the employee quality, and explored the value of talent, thereby providing intelligence support for our transformation and development.

We created unique competition advantages, and inspired the vitality for transformation and development. CZBank always intensified the customer-centered service awareness, deeply explored into customer demands, and promoted innovation in product services. Liquidity service and capital market business became the blockbuster for CZBank to expand basic customer base and serve the real economy; as for the small and micro business, we built up the three-level inclusive finance operation and management system of the matrix structure and pass-through type, which further reinforced our position as the business benchmark; as for the personal and international business, we continuously strengthened the "Internet plus" innovation, so as to realize the development in both quality and quantity.

We promoted innovation in financial technology and intensified the impetus for transformation and development. Facing the unprecedented opportunity arising from the development of financial technology, CZBank built up the philosophy of leading the development by technology, increased investment in information technology, optimized the technological management system, and intensified the data management application. We vigorously promoted the integration of technology with operation management, and rapidly advanced the conduction of marketing support platform, decision-making support platform and risk management platform. We vigorously promoted the integration of technological innovation with business development, targeted at the pain points of customer demands, and took the initiative to design technical application scenarios and develop new products and new services. We vigorously advanced the integration of technology with outlet refreshing, accelerated the intelligent and light-weighted transformation of our outlets, and improved the integrated online/offline service level.

"All good principles should adapt to changing times to remain relevant". 2018 will be the beginning year to comprehensively carry forward the spirit of the CPC 19th National Congress, as well as an interconnecting year to implement the "Third Five-Year" Plan of CZBank. Under the concern and support of all investors and the public, CZBank will insist on the key tone of "strengthening superiority, breaking through difficulties and focusing on transformation", overcome difficulties with unremitting efforts, build the five major advantages, accelerate structural adjustment, enhance management quality and efficiency, continue to forge ahead, and weave a new chapter in transformation and development of CZBank at high levels.

沈仁康

Mr. Shen Renkang
Chairman

Mr. Shen Renkang
Chairman



President's Statement

Confronted with the complicated and changeable situation in 2017, towards the overall objective of “Two Most” and the direction indicated by the full-asset class operation strategy, CZBank has always accelerated transformation, served real economy, prevented and controlled risks, thereby making proactive progress in various work, and gradually establishing the modern bank management framework in line with the full-asset class operation requirements.

Our operating results grew steadily. As at the end of 2017, the total assets in balance sheet and the scale of loans and deposits achieved steady growth, the asset-liability structure was optimized continuously, and the proportion of loans and deposits to assets and liabilities respectively in the balance sheet was gradually raised; we made favorable operating benefits, and continued raising the proportion of non-interest income to the operating income; we maintained good assets quality, made the non-performing loan ratio decrease as compared to the beginning of the year, and kept the allowance to non-performing loans at a relatively high level; with the sound overall operation, all of our major indicators met the regulatory requirements.

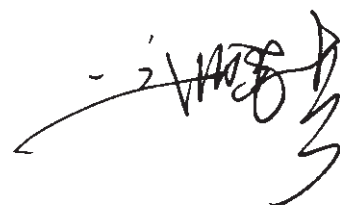
Our five advantages have emerged. In 2017, we continued strengthening the liquidity bank service advantages, presented the accounts receivable chain platform based on the block chain technology, and was the first to launch the intelligent manufacturing bank; deepened business advantages of the inter-bank financial market, made the trading volume of our bill business rank the top among Shanghai Commercial Paper Exchange, and became the lead bond underwriter with the rapidest growth on the market; proactively cultivated the international business advantages, and launched the leading Internet-based foreign exchange trading terminal – “Zheshang Trading Treasure”, thereby quickly enhancing the ranking of our international settlement on the market; continuously promoted the small and micro business advantages, established the inclusive finance business department, and achieved the commercially sustainable development in terms of scale, efficiency and quality; built the advantages as “a bank for personal wealth management”, and made the growth of our retail business scale doubled for three consecutive years.

Our development foundation was tamped continuously. In 2017, we further optimized the customer structure, actively expanded the basic customer base, greatly enhanced the proportion of superior customers such as China's Top 500 enterprises and A-share listed companies, and achieved rapid growth in the number of customers in the emerging industry; accelerated the cultivation of small and micro customers, and explored into providing innovative financial services for small and micro enterprises listed on the NEEQ; the number of our personal customers maintained high growth for three consecutive years. We further optimized the business structure, realized neck-to-neck and consolidated development of both traditional and emerging businesses, and made the international business, personal business and Internet finance business become the new engine that boosted our development.

We resolutely defended the bottom line of risks. In 2017, we continued accelerating construction of the comprehensive risk management system covering credit risk, market risk, liquidity risk, operational risk, reputational risk, etc., and continuously enhanced the perspective, independence and effectiveness of risk management. We proactively implemented the regulatory requirements, carried out the special governance actions of “three violations, three arbitrages, four improper actions and ten chaotic phenomena”, as well as review of the innovative products, and the three-year special action of “protected by internal control and safeguarded by compliance”, duly checked and made up the gaps, and ensured the compliance operation according to laws and regulations. We realized safe and sound operation throughout the year, with no major case, major operational risk event or major safety accident occurring.

We proactively performed our social responsibility. We sponsored the “CZBank Rainbow Plan” – a public welfare student support action for six years in succession, which raised donations of nearly RMB15 million from all sectors of society, and assisted over 10,000 impoverished students; we invested nearly RMB12 million in public welfare activities, and organized more than 1,000 volunteer service activities. The Company was honored the “Most Socially Responsible Financial Institution” for the fourth time, which was the highest award of the national banking industry for public welfare. Our brand image was enhanced grandly as we received numerous honors such as “Best Bank Providing Liquidity Services”, “Best Innovative Bank for Retail Finance”, “Internet Finance Innovation Award”, etc. Meanwhile, our brand refreshing project won two top world-class design awards – “iF Deign Award” and “Red Dot Award”.

With grasses and trees flourishing, the springtime of the industry is foreseeable. 2018 will be the beginning year to comprehensively carry forward the spirit of the CPC 19th National Congress, the 40th anniversary of the reform and opening up policy, and a critical year for CZBank to achieve transformation and development. We will deeply implement the full-asset class operation strategy by closely focusing on the “Two Most” overall objective, accelerate restructuring, intensify compliance operation, and realize high-quality and sustainable development in transformation.



Mr. Liu Xiaochun
President

Mr. Liu Xiaochun

President



Management Discussion and Analysis

(I) ECONOMIC, FINANCIAL AND REGULATORY ENVIRONMENT

In 2017, the global economy continued to recover slowly, and the world economic and trade activities were on the rise. The USA economy recovered robustly, the Eurozone economy continued to improve, and the economy in Japan recovered slightly. The emerging market economies grew rapidly as a whole, but some economies faced the pressure of adjustment and transformation. The US dollar index fell, the euro and pound rose against the dollar, the Japanese yen was relatively stable, and the emerging economies experienced appreciation or depreciation in exchange rate. The stock markets of major economies were generally on the rise, but the treasury bonds return rate was somewhat differentiated.

The Chinese economy operated generally in a smooth way. In 2017, China's GDP reached RMB82.71 trillion, with year-on-year growth of 6.9%, which maintained a stable and better trend. The solid consumption growth strongly stimulated the economic growth, the investment steadily slowed down, and the import & export grew rapidly. The supply-side structural reform was advanced continuously, the economic structure was optimized continually, the new energy of motion grew rapidly, and the quality efficiency was enhanced gradually. Urban employment became basically stable, and the consumer price of residents grew moderately.

The People's Bank of China continued its sound and neutral monetary policy, further improved its macro-prudential policy, strengthened pro-cyclical fine-tuning and communicating with market, and comprehensively utilized such tools as reverse repurchase and medium lending facility to maintain basic stability of the liquidity in banking system, and create a suitable monetary finance environment. As a whole, the sound and neutral monetary policy achieved a better effect: the scales of monetary credit and social financing grew smoothly; the interest rate level was generally moderate; the elasticity of RMB to USD bilateral exchange rate was further enhanced; and the RMB exchange rate expectation was generally steady. At the end of 2017, the supply of the broad money M2 increased by 8.2% on a year-on-year basis, and the social financing scale's stock rose by 12.0% on a year-on-year basis. The CFETS RMB exchange rate index was 94.85, and the central parity rate of USD against RMB was RMB6.5342.

In 2017, the banking industry operated in a sound and healthy manner, prevented operational risks and further enhanced the quality and efficiency for serving the real economy. As of the end of 2017, the assets of financial institutes in local and foreign currencies of the banking industry in China was RMB252 trillion, increased by 8.7% on year-on-year basis, of which, all loans amounted to RMB129 trillion, increasing by 12.4% on year-on-year basis. Total liabilities amounted to RMB233 trillion, increasing by 8.4% on year-on-year basis, of which, all deposits amounted to RMB157 trillion, increasing by 7.8% on year-on-year basis. In 2017, the commercial banks achieved a net profit of RMB1.75 trillion. Balance of non-performing loans of the commercial banks was RMB1.71 trillion with a non-performing loan ratio of 1.74%.

(II) ANALYSIS OF OVERALL OPERATION PERFORMANCE

STABLE INCREASE OF BUSINESS SCALE

As at the end of the reporting period, total assets of the Group amounted to RMB1,536.752 billion, representing an increase of RMB181.898 billion or 13.43% as compared to that at the end of last year, of which net loans and advances to customers increased by RMB206.148 billion or 46.46%; and total liabilities amounted to RMB1,447.064 billion, representing an increase of RMB159.685 billion or 12.40% as compared to that at the end of last year, of which customer deposits amounted to RMB860.619 billion, representing an increase of RMB124.376 billion or 16.89% as compared to that at the end of last year.

CONTINUED ENHANCEMENT OF OPERATING EFFICIENCIES

During the reporting period, operating income of the Group amounted to RMB34.264 billion, representing an increase of RMB611 million or 1.81% as compared to last year, of which net non-interest income amounted to RMB9.873 billion, representing an increase of 17.19%, and the proportion of net non-interest income increased by 3.78 percentage points as compared to that of last year. Net profit attributable to shareholders of the Bank amounted to RMB10.950 billion, representing an increase of RMB797 million or 7.85% as compared to last year.

MAINTAINING SOUND ASSET QUALITY

As at the end of the reporting period, the balance of non-performing loans of the Group amounted to RMB7.767 billion, representing an increase of RMB1.665 billion as compared to that at the end of last year; non-performing loan ratio was 1.15%, representing a decrease of 0.18 percentage points as compared to that at the end of last year; allowance to non-performing loans was 296.94%, representing an increase of 37.61 percentage points as compared to that at the end of last year; the allowance ratio to total loan was 3.43%, representing a decrease of 0.01 percentage points as compared to that at the end of last year.

MAINTAINING STABLE CAPITAL ADEQUACY RATIO

As at the end of the reporting period, the Group's capital adequacy ratio amounted to 12.21%, tier-one capital adequacy ratio amounted to 9.96%, and core tier-one capital adequacy ratio amounted to 8.29%.

Management Discussion and Analysis

(III) ANALYSIS OF FINANCIAL STATEMENTS

1. ANALYSIS OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In 2017, the Group insisted on the general goal of “Two Most” to accelerate the business transformation. The asset scale continued to grow; the operating efficiency was improved steadily; and the asset quality remained at a relatively optimal level. In 2017, the Group achieved a net profit of RMB10.973 billion, increased by 8.07%; the return on average total assets was 0.76% and the return on average equity was 14.64%. Operating income was RMB34.264 billion, increased by 1.81%, including, among others, net interest income of RMB24.391 billion, decreased by 3.32%; non-interest income of RMB9.873 billion, increased by 17.19%. Operating expense was RMB11.183 billion, increased by 12.01%; cost-to-income ratio was 31.96%. Provision for Impairment losses on assets was RMB9.374 billion, decreased by 8.79%. The income tax expense was RMB2.734 billion, decreased by 15.58%.

Changes of the main items in the consolidated statement of comprehensive income

In thousands of RMB, except percentages

Item	2017	2016	Amount of increase or decrease	Growth rate (%)
Net interest income	24,391,106	25,228,553	(837,447)	(3.32)
Net non-interest income	9,873,043	8,424,789	1,448,254	17.19
Operating income	34,264,149	33,653,342	610,807	1.81
Less: operating expenses	11,183,160	9,983,772	1,199,388	12.01
Less: Impairment losses on assets	9,374,231	10,278,011	(903,780)	(8.79)
Profit before income tax	13,706,758	13,391,559	315,199	2.35
Less: Income tax expense	2,733,891	3,238,411	(504,520)	(15.58)
Net profit	10,972,867	10,153,148	819,719	8.07
Net profit attributable to:				
the shareholders of the Bank	10,949,749	10,153,148	796,601	7.85
Non-controlling interests	23,118	-	23,118	-

Management Discussion and Analysis

(1) Net interest income

In 2017, net interest income was RMB24.391 billion, decreased by RMB837 million or 3.32% as compared to last year, accounting for 71.19% of operating income. Interest income was RMB62.582 billion, increased by RMB7.906 billion or 14.46% as compared to last year; and interest expense was RMB38.191 billion, increased by RMB8.743 billion or 29.69% as compared to last year. Net interest spread and net interest margin were 1.62% and 1.81%, respectively, decreased by 27 bps and 26 bps on a year-on-year basis, respectively.

Average yields on interest-earning assets and average costs of interest-bearing liabilities

In thousands of RMB, except percentages

Item	2017			2016		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Interest-earning assets						
Loans and advances to customers	557,030,914	27,430,722	4.92	435,733,844	21,262,865	4.88
Investments ⁽¹⁾	647,306,880	30,902,561	4.77	616,521,797	29,608,589	4.80
Due from banks and other financial institutions ⁽²⁾	97,266,810	2,404,936	2.47	69,312,561	2,282,799	3.29
Balances with central bank ⁽³⁾	125,131,716	1,844,069	1.47	99,931,856	1,522,205	1.52
Total interest-earning assets	1,426,736,320	62,582,288	4.39	1,221,500,058	54,676,458	4.48
Item	2017			2016		
	Average balance	Interest expenses	Average cost (%)	Average balance	Interest expenses	Average cost (%)
Interest-bearing liabilities						
Customer deposits	779,495,522	15,478,588	1.99	632,203,380	13,124,884	2.08
Due to banks and other financial institutions ⁽⁴⁾	442,421,437	16,298,040	3.68	403,446,438	12,816,233	3.18
Debt securities issued ⁽⁵⁾	159,177,555	6,414,554	4.03	100,915,723	3,506,788	3.47
Total interest-bearing liabilities	1,381,094,514	38,191,182	2.77	1,136,565,541	29,447,905	2.59
Net interest spread (%)			1.62			1.89
Net interest margin (%) ⁽⁶⁾			1.81			2.07

Notes:

- (1) Investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables.
- (2) Due from banks and other financial institutions include financial assets purchased under resale agreements.
- (3) Balances with the central bank include mandatory reserve deposits, surplus reserve deposits and foreign exchange reserve of deposits.

Management Discussion and Analysis

- (4) Due to banks and other financial institutions include financial assets sold under repurchase agreements.
- (5) Debt securities issued includes issued inter-bank certificates of deposits, financial bond and subordinated bond.
- (6) Net interest margin: the income generated from businesses such as monetary funds and bond funds was not classified as interest income categorised by accounting item, and its corresponding interest-bearing liabilities and interest expense shall be adjusted accordingly.

Analysis of changes in interest income and interest expense

In thousands of RMB

Item	Comparison between 2017 and 2016		Net increase (decrease) ⁽³⁾
	Volume ⁽¹⁾	Interest rate ⁽²⁾	
Interest-earning assets			
Loans and advances to customers	5,919,034	248,823	6,167,857
Investments	1,478,460	(184,488)	1,293,972
Due from banks and other financial institutions	920,669	(798,532)	122,137
Balances with central bank	383,855	(61,991)	321,864
Changes in interest income	8,702,018	(796,188)	7,905,830
Interest-bearing liabilities			
Customer deposits	3,057,865	(704,161)	2,353,704
Due to banks and other financial institutions	1,238,114	2,243,693	3,481,807
Debt securities issued	2,024,579	883,187	2,907,766
Changes in interest expense	6,320,558	2,422,719	8,743,277
Changes in net interest income	2,381,460	(3,218,907)	(837,447)

Notes:

- (1) Change in volume represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield or average cost for the previous year.
- (2) Change in interest rate represents the average yield or average cost for the year minus the average yield or average cost for the previous year, multiplied by the average balance for the year.
- (3) Net increase or decrease represents interest income or expense for the year minus interest income or expense for the previous year.

Management Discussion and Analysis

(2) Interest income

Interest income from loans and advances to customers

Interest income from loans and advances to customers was RMB27.431 billion, increased by RMB6.168 billion or 29.01% as compared to last year, mainly due to the increase in the loans and advances to customers.

Interest income from loans and advances to customers

In thousands of RMB, except percentages

	Average balance	2017 Interest income	Average yield (%)	Average balance	2016 Interest income	Average yield (%)
Corporate loans and advances ⁽¹⁾	446,703,849	20,879,523	4.67	362,058,091	16,714,071	4.62
Personal loans and advances	110,327,065	6,551,199	5.94	73,675,753	4,548,794	6.17
Total loans and advances to customers	557,030,914	27,430,722	4.92	435,733,844	21,262,865	4.88

Note:

(1) including discounted bills.

Interest income from investments

Interest income from investments was RMB30.903 billion, increased by RMB1.294 billion or 4.37% as compared to last year, mainly due to the increase in bond investments.

Interest income from due from banks and other financial institutions

Interest income from due from banks and other financial institutions was RMB2.405 billion, representing an increase of RMB122 million or 5.35% as compared to last year, primarily due to the increased scale of due from banks and other financial institutions.

Interest income from balances with central bank

Interest income from balances with central bank amounted to RMB1.844 billion, representing an increase of RMB322 million or 21.14% as compared to last year, primarily due to the increase in customer deposits which resulted in the increase in the mandatory reserve deposits.

Management Discussion and Analysis

(3) Interest expense

Interest expense on customer deposits

Interest expense on customer deposits amounted to RMB15.479 billion, representing an increase of RMB2.354 billion or 17.93% as compared to last year, primarily due to the increase in customer deposits.

In thousands of RMB, except percentages

	Average balance	2017 Interest expense	Average cost (%)	Average balance	2016 Interest expense	Average cost (%)
Corporate deposits and other deposits⁽¹⁾						
Time	466,129,652	12,372,081	2.65	409,405,695	11,279,491	2.76
Demand	270,169,729	2,056,916	0.76	199,382,856	1,383,500	0.69
Subtotal	736,299,381	14,428,997	1.96	608,788,551	12,662,991	2.08
Personal deposits						
Time	34,155,817	1,016,039	2.97	18,305,715	443,747	2.42
Demand	9,040,324	33,552	0.37	5,109,114	18,146	0.36
Subtotal	43,196,141	1,049,591	2.43	23,414,829	461,893	1.97
Total	779,495,522	15,478,588	1.99	632,203,380	13,124,884	2.08

Note:

(1) Other deposits include remittance payables, temporary deposits, outward remittance and structured deposits, etc.

Interest expense on due to banks and other financial institutions

Interest expense on due to banks and other financial institutions amounted to RMB16.298 billion, representing an increase of RMB3.482 billion or 27.17% as compared to last year, primarily due to the increase in financing interest rates.

Debt securities issued

Interest expense on debt securities issued amounted to RMB6.415 billion, representing an increase of RMB2.908 billion or 82.92% as compared to last year, primarily due to the increase in issuance of interbank certificates of deposits.

Management Discussion and Analysis

(4) Net non-interest income

Net non-interest income in 2017 amounted to RMB9.873 billion, representing an increase of RMB1.448 billion or 17.19% as compared to last year. Specifically, the net fee and commission income was RMB8.013 billion, representing an increase of RMB538 million as compared to last year, while other net non-interest income was RMB1.860 billion, representing an increase of RMB910 million as compared to last year.

Net fee and commission income

In thousands of RMB, except percentages

Item	2017	2016	Amount of increase or decrease	Growth rate (%)
Agency service	388,125	442,682	(54,557)	(12.32)
Asset Management Services	5,513,087	5,416,548	96,539	1.78
Custodian and other fiduciary service	498,962	192,334	306,628	159.42
Credit commitment	406,989	446,021	(39,032)	(8.75)
Underwriting service	634,281	597,127	37,154	6.22
Settlement business	451,867	158,351	293,516	185.36
Others	523,009	413,042	109,967	26.62
Fee and commission income	8,416,320	7,666,105	750,215	9.79
Less: Fee and commission expense	402,915	191,018	211,897	110.93
Net fee and commission income	8,013,405	7,475,087	538,318	7.20

Fee income from agency service was RMB388 million, representing a decrease of RMB55 million as compared to last year, primarily because of the proactive adjustment of our business model according to the changing market environment.

Fee income from asset management service was RMB5.513 billion, representing an increase of RMB97 million as compared to last year, primarily due to optimising the structure of asset management business.

Fee income from custodian and other fiduciary service was RMB499 million, representing an increase of RMB307 million as compared to last year, primarily due to the increased scale of the asset custodian business.

Income from credit commitment business was RMB407 million, representing a decrease of RMB39 million as compared to last year, primarily due to the adjustment of off-balance sheet business model, such as loan commitments.

Fee income from underwriting service was RMB634 million, representing an increase of RMB37 million as compared to last year, primarily due to the increased scale of the bond underwriting business.

Fee income from settlement business was RMB452 million, representing an increase of RMB294 million as compared to last year, primarily due to the growth of our settlement and clearing business.

Management Discussion and Analysis

Other net non-interest income

In thousands of RMB, except percentages

Item	2017	2016	Amount of increase or decrease	Growth rate (%)
Net trading gains	456,020	10,134	445,886	4,399.90
Net gains on financial investments	905,390	725,339	180,051	24.82
Other operating income	498,228	214,229	283,999	132.57
Total	1,859,638	949,702	909,936	95.81

Other net non-interest income was RMB1.860 billion, representing an increase of RMB910 million as compared to last year, primarily due to the increased net gains on trading activities.

(5) Operating expenses

In thousands of RMB, except percentages

Item	2017	2016	Amount of increase or decrease	Growth rate (%)
Staff costs	6,644,637	5,962,976	681,661	11.43
General and administrative expenses	3,289,582	2,646,701	642,881	24.29
Tax and surcharges	232,461	658,446	(425,985)	(64.70)
Rental expenses	593,188	429,611	163,577	38.08
Depreciation and amortization	363,669	236,275	127,394	53.92
Others	59,623	49,763	9,860	19.81
Total	11,183,160	9,983,772	1,199,388	12.01

Operating expenses amounted to RMB11.183 billion, representing an increase of 12.01%, primarily due to our business expansion, the increased number of outlets and employees and the increased strategic business investment.

(6) Impairment losses on assets

In thousands of RMB, except percentages

Item	2017	2016	Amount of increase or decrease	Growth rate (%)
Loans and advances to customers				
– Collectively assessed	6,648,789	5,827,139	821,650	14.10
– Individually assessed	2,068,766	2,591,715	(522,949)	(20.18)
Debt instruments classified as receivables	500,743	1,856,673	(1,355,930)	(73.03)
Others	155,933	2,484	153,449	6,177.50
Total	9,374,231	10,278,011	(903,780)	(8.79)

The impairment losses on assets were RMB9.374 billion, representing a decrease of RMB904 million or 8.79% as compared to last year.

Management Discussion and Analysis

(7) Income tax expenses

The income tax expenses were RMB2.734 billion, representing a year-on-year decrease of RMB505 million or 15.58%, and the effective tax rate was 19.95%. For the reconciliation statement of the income tax expenses calculated at statutory tax rate and the actual income tax expenses, please see “Notes to Consolidated Financial Statements – 12 Income Tax Expense”.

(8) Segment information

Segment operating results by business line

In thousands of RMB, except percentages

Item	2017		2016	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate banking	19,840,147	57.90	17,911,109	53.22
Retail banking	3,777,346	11.02	3,132,904	9.31
Treasury business	10,208,017	29.79	12,532,277	37.24
Others	438,639	1.29	77,052	0.23
Total operating income	34,264,149	100.00	33,653,342	100.00

Segment operating results by geographic region

In thousands of RMB, except percentages

Item	2017		2016	
	Amount	Proportion (%)	Amount	Proportion (%)
Yangtze River Delta region	20,709,469	60.44	21,250,788	63.15
Bohai Rim region	5,127,090	14.96	5,518,816	16.40
Pearl River Delta region	2,390,210	6.98	1,783,790	5.30
Midwestern region	6,037,380	17.62	5,099,948	15.15
Total operating income	34,264,149	100.00	33,653,342	100.00

Management Discussion and Analysis

2. ANALYSIS ON STATEMENT OF FINANCIAL POSITION

In 2017, the Group, according to the changes in external macroeconomic environment, actively adapted to rapidly changing market needs, further deepen our full-asset class operation strategy, actively adjusted our business structure, increased the allocation for strategic customers and strategic assets, and optimized and adjusted the regional development layout. Our operating capacity was further improved, structure of assets and liabilities was continuously optimized, liquidity and market risk management were further strengthened, and resource allocation efficiency of assets and liabilities was steadily improved.

(1) Assets

As at the end of the reporting period, total assets of the Group amounted to RMB1,536.752 billion, representing an increase of RMB181.898 billion or 13.43% as compared to that at the end of last year, including an increase in net loans and advances to customers of RMB206.148 billion or 46.46% and a decrease in investments of RMB54.139 billion or 8.16%. In terms of the structure, net loans and advances to customers accounted for 42.29% of total assets, investments accounted for 39.63%, and cash and balances with central bank accounted for 10.03%.

Assets utilization

In thousands of RMB, except percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Proportion (%)	Amount	Proportion (%)
Total loans and advances to customers	672,878,934	—	459,493,053	—
Less: Allowance for Impairment losses	(23,062,217)	—	(15,824,396)	—
Net loans and advances to customers	649,816,717	42.29	443,668,657	32.75
Investments ⁽¹⁾	609,029,046	39.63	663,167,801	48.95
Cash and balances with central bank	154,091,440	10.03	124,269,106	9.17
Precious metal	12,382,513	0.81	3,952,824	0.29
Due from banks and other financial Institutions	71,432,438	4.65	98,442,129	7.26
Others	39,999,948	2.60	21,354,002	1.58
Total assets	1,536,752,102	100.00	1,354,854,519	100.00

Note:

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

Management Discussion and Analysis

Loans and advances to customers

In 2017, the Group, according to changes in the macroeconomic environment and financial supervision requirements, reasonably controlled the volume, direction and pace of credit extension and by combining the optimization of credit increment and stock structure adjustment, supported the development of real economy, continued to deepen financial services to small and micro enterprises, increased efforts on innovation, and attached importance to credit structure adjustment and risk prevention and control simultaneously. As at the end of the reporting period, total loans and advances to customers of the Group amounted to RMB672.879 billion, representing an increase of RMB213.386 billion or 46.44% as compared to that at the end of last year.

Loan structure by business type

In thousands of RMB, except percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate loans	518,596,693	77.07	353,200,030	76.87
Discounted bills	20,349,584	3.03	18,024,442	3.92
Personal loans	133,932,657	19.90	88,268,581	19.21
Total	672,878,934	100.00	459,493,053	100.00

Corporate loans

Driven by the full-asset class operation strategy in a comprehensive manner, the Group can meet customers' financing needs via diversified products, and promoted the optimization of corporate loan structure while taking into account the adjustment in total amount and structure of its loans. As at the end of the reporting period, total corporate loans amounted to RMB518.597 billion, representing an increase of 46.83% as compared to that at the end of last year.

Discounted bills

The Group flexibly regulated and controlled its discounted bills business with low risk and low consumption of capital according to the progress of loan extension, and took various measures including optimization of structure and acceleration of turnover to improve comprehensive returns on bill assets. As at the end of the reporting period, total discounted bills amounted to RMB20.350 billion, representing an increase of 12.90% as compared to that at the end of last year.

Personal loans

The Group optimized its asset structure and continued to promote the steady growth of personal loans, and expanded residential mortgage loans, personal business loans and credit card loans taking into account the market demand and risk management control. As at the end of the reporting period, total personal loans amounted to RMB133.933 billion, representing an increase of 51.73% as compared to that at the end of last year.

Investments

In 2017, the Group strongly supported the development of the real economy and optimised its investment portfolio structure. Meanwhile, the Group reasonably controlled its investment scale on the assurance of controllability of liquidity and risks, so as to continuously improve its return on investment portfolio. As at the end of the reporting period, total investments amounted to RMB609.029 billion, representing a decrease of 8.16% as compared to that at the end of last year.

Management Discussion and Analysis

Investment composition by purpose of holding

In thousands of RMB, except percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Proportion (%)	Amount	Proportion (%)
Financial assets at fair value through profit or loss	46,344,516	7.61	23,131,819	3.49
Available-for-sale financial assets	127,898,959	21.00	61,466,941	9.27
Held-to-maturity investments	91,562,790	15.03	41,532,932	6.26
Debt instruments classified as receivables	343,222,781	56.36	537,036,109	80.98
Total	609,029,046	100.00	663,167,801	100.00

As at the end of the reporting period, financial assets at fair value through profit or loss of the Group amounted to RMB46.345 billion, representing an increase of 100.35%; available-for-sale financial assets amounted to RMB127.899 billion, representing an increase of 108.08%; held-to-maturity investments amounted to RMB91.563 billion, representing an increase of 120.46%; and debt instruments classified as receivables amounted to RMB343.223 billion, representing a decrease of 36.09%.

(2) Liabilities

As at the end of the reporting period, total liabilities of the Group amounted to RMB1,447.064 billion, representing an increase of RMB159.685 billion or 12.40% as compared to that at the end of last year.

Liabilities Composition

In thousands of RMB, except percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Proportion (%)	Amount	Proportion (%)
Customer deposits	860,619,457	59.47	736,243,698	57.19
Due to banks and other financial Institutions	356,805,618	24.66	394,108,821	30.61
Financial liabilities at fair value through profit or loss	5,615,590	0.39	13,875,609	1.08
Debt securities issued	190,551,983	13.17	114,595,250	8.90
Others	33,471,700	2.31	28,555,763	2.22
Total liabilities	1,447,064,348	100.00	1,287,379,141	100.00

Management Discussion and Analysis

Customer deposits

The Bank attached importance to deposit organization and management, actively responded to the further advancement of liberalization of interest rates, increasingly fierce competition among peers, rapid development of Internet financial services and other external situations, took full advantage of the comprehensive financial services, improved the differentiated pricing mechanism for deposit interest rates, raised the debt stability, strengthened the management of financing channels, improved the diversification of financing sources and further optimized financing structures.

Structure of our customer deposits by business type

In thousands of RMB, except percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Proportion (%)	Amount	Proportion (%)
Corporate deposits				
Demand	290,752,765	33.78	256,737,966	34.87
Time	511,302,211	59.41	443,686,661	60.26
Sub-total	802,054,976	93.20	700,424,627	95.13
Personal deposits				
Demand	21,166,325	2.46	7,501,155	1.02
Time	34,521,564	4.01	26,046,656	3.54
Sub-total	55,687,889	6.47	33,547,811	4.56
Other deposits	2,876,592	0.33	2,271,260	0.31
Total	860,619,457	100.00	736,243,698	100.00

As at the end of the reporting period, balance of customer deposits of the Group amounted to RMB860.619 billion, representing an increase of RMB124.376 billion or 16.89% as compared to that at the end of last year. With respect to customer structure, corporate deposits increased by 101.630 billion or 14.51%; and personal deposits increased by RMB22.140 billion or 66.00%. With respect to term structures, time deposits increased by RMB76.090 billion or 16.20%; and demand deposits increased by RMB47.680 billion or 18.04%.

(3) Shareholder's equity

As at the end of the reporting period, equity attributable to shareholders of the Bank amounted to RMB88.195 billion in total, representing an increase of RMB20.719 billion or 30.71% as compared to that at the end of last year. Please see "Consolidated Financial Statements – Consolidated Statement of Changes in Equity".

Management Discussion and Analysis

(IV) ASSET QUALITY ANALYSIS

1. LOAN DISTRIBUTION BY THE FIVE-CATEGORY CLASSIFICATION

In thousands of RMB, except percentages

Item	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Pass	654,461,569	97.26	443,567,947	96.53
Special mention	10,650,801	1.58	9,823,085	2.14
Non-performing	7,766,564	1.15	6,102,021	1.33
Substandard	3,359,505	0.50	2,934,979	0.64
Doubtful	2,859,317	0.42	2,288,033	0.50
Loss	1,547,742	0.23	879,009	0.19
Total	672,878,934	100.00	459,493,053	100.00

The loan quality of the Group was kept at an excellent level. As of the end of the reporting period, according to the five-category classification of supervision system, the pass loans amounted to RMB654.462 billion, representing an increase of RMB210.894 billion as compared to that at the end of last year, accounting for 97.26% of total loans and advances to customers. Loans classified as special mention were RMB10.651 billion, representing an increase of RMB828 million as compared to that at the end of last year, accounting for 1.58% of total loans and advances to customers. The non-performing loans were RMB7.767 billion, representing an increase of RMB1.665 billion as compared to that at the end of last year, with a non-performing loan ratio of 1.15%, representing a decrease of 0.18 percentage points as compared to that at the end of last year.

2. DISTRIBUTION OF LOANS AND NON-PERFORMING LOANS BY BUSINESS TYPE

In thousands of RMB, except percentages

Item	December 31, 2017				December 31, 2016			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans	518,596,693	77.07	6,961,201	1.34	353,200,030	76.87	5,215,673	1.48
Personal loans	133,932,657	19.90	805,363	0.60	88,268,581	19.21	886,348	1.00
Discounted bills	20,349,584	3.03	-	-	18,024,442	3.92	-	-
Total	672,878,934	100.00	7,766,564	1.15	459,493,053	100.00	6,102,021	1.33

As of the end of the reporting period, our non-performing corporate loans amounted to RMB6.961 billion, representing an increase of RMB1.745 billion, with a non-performing loan ratio of 1.34%, representing a decrease of 0.14 percentage points as compared to the end of last year. The personal non-performing loans were RMB805 million, representing a decrease of RMB81 million as compared to that at the end of last year, with a non-performing loan ratio of 0.60%, representing a decrease of 0.4 percentage points as compared to the end of last year.

Management Discussion and Analysis

3. DISTRIBUTION OF LOANS AND NON-PERFORMING LOANS BY INDUSTRY

In thousands of RMB, except percentages

Item	December 31, 2017				December 31, 2016			
	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Amount of non-performing loans	Non-performing loan ratio (%)
Corporate loans	518,596,693	77.07	6,961,201	1.34	353,200,030	76.87	5,215,673	1.48
Manufacturing	115,674,946	17.19	3,434,370	2.97	82,223,489	17.90	3,130,585	3.81
Leasing and commercial services	92,900,199	13.81	96,011	0.10	56,026,555	12.19	71,494	0.13
Wholesale and retail trade	74,865,365	11.13	1,621,041	2.17	64,730,164	14.09	865,783	1.34
Real estate	73,159,185	10.87	942,404	1.29	55,305,239	12.04	608,129	1.10
Administration of water conservancy, environment and public facilities	61,972,488	9.21	-	-	23,900,015	5.20	-	-
Construction	39,097,951	5.81	437,562	1.12	26,045,725	5.67	444,965	1.71
Transportation, storage and postal service	13,858,268	2.06	172,674	1.25	7,448,445	1.62	7,196	0.10
Electricity, heat, gas and water production and supply	7,914,379	1.18	77,548	0.98	6,588,230	1.43	400	0.01
Financing	9,371,760	1.39	-	-	5,358,641	1.17	-	-
Mining	3,919,123	0.58	18,306	0.47	4,857,390	1.06	50,672	1.04
Accommodation and Catering	4,468,664	0.66	127,091	2.84	3,835,856	0.83	9,997	0.26
Others ⁽¹⁾	21,394,365	3.18	34,194	0.16	16,880,281	3.67	26,453	0.16
Personal loans	133,932,657	19.90	805,363	0.60	88,268,581	19.21	886,348	1.00
Discounted bills	20,349,584	3.03	-	-	18,024,442	3.92	-	-
Total	672,878,934	100.00	7,766,564	1.15	459,493,053	100.00	6,102,021	1.33

Note:

- (1) Others include various industries such as public administration and social organization; culture, sports and entertainment; information transmission, computer service and software; agriculture, forestry, animal husbandry and fishery; household services and other services; scientific research, technology services and geological exploration; education, sanitation, social security and social welfare.

In 2017, the Group actively supported the development of the real economy and followed the national economic restructuring, with a priority focus on national economy basic industries and national strategic emerging industries. The differential risk prevention and control strategy was formulated for areas such as industries with surplus production capacity and real estate. The Group also continued to optimize the allocation of credit resources.

Management Discussion and Analysis

4. DISTRIBUTION OF LOANS AND NON-PERFORMING LOANS BY GEOGRAPHIC REGION

In thousands of RMB, except percentages

	December 31, 2017				December 31, 2016			
	Amount of loans	Percentage (%)	Non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Non-performing loans	Non-performing loan ratio (%)
Yangtze River Delta Region	402,745,180	59.86	5,845,695	1.45	243,706,939	53.04	4,444,688	1.82
Midwestern China	124,495,153	18.50	709,022	0.57	93,867,159	20.43	687,518	0.73
Bohai Rim region	90,467,487	13.44	1,075,278	1.19	80,273,764	17.47	868,801	1.08
Pearl River Delta Region	55,171,114	8.20	136,569	0.25	41,645,191	9.06	101,014	0.24
Total	672,878,934	100.00	7,766,564	1.15	459,493,053	100.00	6,102,021	1.33

As of the end of the reporting period, given the characters in economic pattern of various regions, the Group continued to optimize the regional credit allocation to actively prevent regional risks. The proportion of loans in Yangtze River Delta Region recorded a certain increase. As of the end of the reporting period, the region where the Group incurred a large volume of non-performing loans was Yangtze River Delta Region, where the non-performing loan ratio decreased by 0.37 percentage point as compared to the end of last year.

5. DISTRIBUTION OF LOANS AND NON-PERFORMING LOANS BY SECURITY TYPE

In thousands of RMB, except percentages

	December 31, 2017				December 31, 2016			
	Amount of loans	Percentage (%)	Non-performing loans	Non-performing loan ratio (%)	Amount of loans	Percentage (%)	Non-performing loans	Non-performing loan ratio (%)
Collateralized loans	248,456,852	36.92	3,416,477	1.38	180,846,164	39.36	3,219,685	1.78
Pledged loans	119,379,949	17.74	63,370	0.05	72,495,022	15.78	39,936	0.06
Guaranteed loans	203,506,330	30.24	4,022,127	1.98	133,982,215	29.16	2,725,275	2.03
Unsecured loans	81,186,219	12.07	264,590	0.33	54,145,210	11.78	117,126	0.22
Discounted bills	20,349,584	3.03	-	-	18,024,442	3.92	-	-
Total	672,878,934	100.00	7,766,564	1.15	459,493,053	100.00	6,102,021	1.33

The Group has been optimizing its customer structure continuously, innovating its business model, and strengthening the cooperation with strategic clients. As of the end of the reporting period, the pledged loans amounted to RMB119.380 billion, representing an increase of RMB46.885 billion or 64.67% as compared to that at the end of last year, primarily attributable to the rapid growth of innovative businesses such as “bill pool” and “asset pool”; the guaranteed loans amounted to RMB203.506 billion, representing an increase of RMB69.524 billion or 51.89% as compared to that at the end of last year, primarily attributable to the continuous optimization of customer structure.

Management Discussion and Analysis

6. TEN LARGEST BORROWERS

In thousands of RMB, except percentages

Top ten borrowers	Industry	Amount	Percentages of total loans and advances to customers (%)
A	Manufacturing	8,591,681.60	1.28
B	Wholesale and retail trade	3,788,529.60	0.56
C	Manufacturing	2,670,145.50	0.40
D	Manufacturing	2,539,894.50	0.38
E	Manufacturing	2,401,509.50	0.36
F	Real estate	2,000,000.00	0.30
G	Real estate	2,000,000.00	0.30
H	Manufacturing	1,974,135.80	0.29
I	Manufacturing	1,970,000.00	0.29
J	Construction	1,970,000.00	0.29
Total		29,905,896.50	4.44

As of the end of the reporting period, the balance of loans to our largest single borrower was RMB8.592 billion, representing 7.83% of the Group's net capital. The total loans to our top ten single borrowers amounted to RMB29.906 billion, representing 27.26% of the net capital and 4.44% of the total loans of the Group.

7. OVERDUE LOANS

In thousands of RMB, except percentages

Overdue period	December 31, 2017		December 31, 2016	
	Amount	Percentages of total loans and advances to customers (%)	Amount	Percentages of total loans and advances to customers (%)
Overdue by 1 to 90 days	1,168,584	0.17	1,126,320	0.25
Overdue by 90 days to one year	3,588,877	0.53	2,560,048	0.56
Overdue by one year to three years	2,337,214	0.35	1,816,149	0.40
Overdue by more than three years	94,751	0.01	12,775	0.00
Total	7,189,426	1.07	5,515,292	1.20

As at the end of the reporting period, the balance of overdue loans amounted to RMB7.189 billion, representing an increase of RMB1.674 billion as compared to that at the end of last year. Specifically, loans overdue by more than 90 days amounted to RMB6.021 billion, representing an increase of RMB1.632 billion as compared to that at the end of last year.

Management Discussion and Analysis

8. LOANS RENEGOTIATED

The Group imposed strict and prudent management control over loan restructuring. As of the end of the reporting period, loans and advances renegotiated amounted to RMB319 million, representing an increase of RMB32 million as compared to that at the end of last year. Specifically, loans and advances renegotiated overdue by more than three months were RMB50 million, representing a decrease of RMB71 million as compared to that at the end of last year.

9. MOVEMENTS IN ALLOWANCES FOR IMPAIRMENT LOSSES ON LOANS

In thousands of RMB

	Collectively assessed	Individually assessed	Total
Balance at the beginning of the year	13,038,063	2,786,333	15,824,396
Net impairment allowances charged to profit or loss	6,648,789	2,068,766	8,717,555
Unwinding of discount on allowance	(26,255)	(27,333)	(53,588)
Write-offs	(467,314)	(851,218)	(1,318,532)
Transfer out	(225,613)	(164,572)	(390,185)
Recoveries	221,674	82,165	303,839
Exchange differences	(21,268)	–	(21,268)
Balance at the end of the year	19,168,076	3,894,141	23,062,217

(V) CAPITAL MANAGEMENT

In accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) (《商業銀行資本管理辦法(試行)》), the measurement range of the Group's capital adequacy ratio covers credit risk, market risk and operational risk. Among them, credit risk-weighted assets were measured by using weight method, market risk-weighted assets were measured by using standardized approach, and operational risk-weighted assets were measured by using the basic indicator approach.

As at December 31, 2017, capital adequacy ratio of the Group was 12.21%, tier-one capital adequacy ratio was 9.96%, core tier-one capital adequacy ratio was 8.29%, and leverage ratio was 4.83%, all of which met regulatory requirements.

Management Discussion and Analysis

CAPITAL ADEQUACY RATIO (THE GROUP)

In thousands RMB, except percentages

Item	December 31, 2017
Core tier-one capital	74,653,783
Paid-in capital	17,959,697
Part of capital reserves that can be included	17,985,006
Surplus reserves	3,790,406
General risk reserves	17,243,730
Undistributed profits	17,321,758
Part of minority interests that can be included	353,186
Core tier-one capital deductible items	(203,101)
Net of other intangible assets (excluding land use rights) after deduction of related deferred tax liabilities	(203,101)
Investment in core tier-one capital issued by financial institutions that are under control but not subject to consolidation	–
Net core tier-one capital	74,450,682
Other tier-one capital	15,004,755
Other tier-one capital instruments and premium	14,957,664
Part of minority interests that can be included	47,091
Net tier-one capital	89,455,437
Tier-two capital	20,231,614
Tier-two capital instruments and premium that can be included	10,000,000
Excessive allowance for loan losses	10,137,431
Part of minority interests that can be included	94,183
Tier-two capital deductible items	–
Net capital base	109,687,051
Risk-weighted assets	898,580,080
Core tier-one capital adequacy ratio (%)	8.29
Tier-one capital adequacy ratio (%)	9.96
Capital adequacy ratio (%)	12.21

LEVERAGE RATIO (THE GROUP)

In thousands of RMB, except percentages

Item	December 31, 2017
Tier-one capital	89,658,538
Tier-one capital deductible items	(203,101)
Net tier-one capital	89,455,437
Adjusted asset balance inside the balance sheet	1,489,875,148
Asset balance of derivative products	11,555,394
Asset balance of securities financing transactions	42,072,900
Adjusted asset balance outside the balance sheet	308,952,602
Adjusted asset balance inside and outside the balance sheet	1,852,456,044
Leverage ratio (%)	4.83

As of December 31, 2017, capital adequacy ratio of the Company was 12.09%, tier-one capital adequacy ratio was 9.84%, core tier-one capital adequacy ratio was 8.16%, and leverage ratio was 4.75%, all of which met regulatory requirements.

Management Discussion and Analysis

CAPITAL ADEQUACY RATIO (THE COMPANY)

In thousands RMB, except percentages

Item	December 31, 2017	December 31, 2016
Core tier-one capital	74,276,535	67,706,445
Paid-in capital	17,959,697	17,959,697
Part of capital reserves that can be included	17,985,006	19,269,901
Surplus reserves	3,790,406	2,775,091
General risk reserves	17,243,730	13,242,456
Undistributed profits	17,297,696	14,459,300
Core tier-one capital deductible items	(1,728,060)	(268,702)
Net of other intangible assets (excluding land use rights) after deduction of related deferred tax liabilities	(198,060)	(268,702)
Investment in core tier-one capital issued by financial institutions that are under control but not subject to consolidation	(1,530,000)	–
Net core tier-one capital	72,548,475	67,437,743
Other tier-one capital	14,957,664	–
Net tier-one capital	87,506,138	67,437,743
Tier-two capital	20,022,159	18,206,396
Tier-two capital instruments and premium that can be included	10,000,000	10,000,000
Excessive allowance for loan losses	10,022,159	8,206,396
Tier-two capital deductible items	–	–
Net capital base	107,528,297	85,644,139
Risk-weighted assets	889,062,694	726,578,153
Core tier-one capital adequacy ratio (%)	8.16	9.28
Tier-one capital adequacy ratio (%)	9.84	9.28
Capital adequacy ratio (%)	12.09	11.79

LEVERAGE RATIO (THE COMPANY)

In thousands of RMB, except percentages

Item	December 31, 2017	December 31, 2016
Tier-one capital	89,234,199	67,706,445
Tier-one capital deductible items	(1,728,060)	(268,702)
Net tier-one capital	87,506,138	67,437,743
Adjusted asset balance inside the balance sheet	1,480,458,676	1,303,897,192
Asset balance of derivative products	11,555,394	8,478,014
Asset balance of securities financing transactions	42,072,900	45,087,285
Adjusted asset balance outside the balance sheet	309,347,493	239,875,655
Adjusted asset balance inside and outside the balance sheet	1,843,434,463	1,597,338,146
Leverage ratio (%)	4.75	4.22



Management Discussion and Analysis

(VI) RISK MANAGEMENT

1. COMPREHENSIVE RISK MANAGEMENT SYSTEM

The Company adopts an “active and solid” risk appetite, which optimizes risk returns by actively managing risks and innovating management approaches, and also helps to balance capital, risk and return, as well as assets and liabilities. The Company gradually improves the comprehensive risk management system that is in line with the full-asset class operation strategy, and endeavors to realize the overall objective of “two most” in a healthy and orderly manner.

The Company’s Board of Directors takes the ultimate responsibility for comprehensive risk management; the Board of Supervisors is responsible for supervision of comprehensive risk management; and the senior management is responsible for implementing comprehensive risk management. The senior management has established special committees including the risk management and internal control committee, asset and liability management committee, credit review committee, investment and transaction review committee, asset risk classification review committee and business continuity management committee. The risk management and internal control committee is mainly responsible for the overall management of various risks and making research on risk management and internal control system, policies, measures and other major issues.

The risk management department at our head office is the general department for comprehensive risk management and the leading executive department for management of credit risk, country risk and information technology risk; the financial market risk control department at our head office is the leading executive department for market risk (excluding interest rate risk of banking book) management; the asset and liability management department at our head office is the leading executive department for liquidity risk and interest rate risk of banking book management; the internal control and compliance and legal department at our head office is the leading executive department for operational risk, compliance risk and anti-money laundering management; the executive office at our head office is the leading executive department for reputational risk management; the development and planning department at our head office is the leading executive department for strategic risk management.

The Company accredits risk monitoring officers to the departments subject to higher business complexity and relatively concentrative risks at our head office. The risk monitoring officer is responsible for helping the leading officers of accrediting departments organize risk management, who is independent of accrediting departments and directly responsible to the president of our head office, and carries out business judgment and reporting on risk issues independently. The Company accredits to branches risk monitoring officers, who helps the president of the accrediting branch organize comprehensive risk management, and is independent of the accrediting branch and directly responsible to the president of our head office, and carries out business judgment and reporting on risk issues independently.

The Company implements line risk management model which means to establish risk management center or risk management position under competent authorities of business lines so as to improve the professional level and efficiency of risk management.

Management Discussion and Analysis

2. CREDIT RISK MANAGEMENT

Credit risk refers to the risk of the Company suffering from losses due to the default of debtors or counterparties or a decline in their credit. The Company's credit risk primarily lies in both on-and off-balance sheet businesses, including loans, inter-bank lending, bond investments, bill acceptances, letters of credit and letters of guarantee, bond holdings and specific purpose carrier investments.

The objectives of our credit risk management are to control our credit risk within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's credit risk management system consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, head office credit review committee, investment and transaction review committee, branch credit, investment and transaction review committee, sub-branch credit review team, head office risk management department and other credit risk control departments, business departments, information technology departments, audit departments, branches, sub-branches and subsidiaries. The senior management is responsible for implementing and organizing the credit risk management, as well as formulating and carrying out relevant systems and policies for credit risk management.

During the reporting period, the Company formulates fundamental policies for our customer financing risk management based on the changes to our external operating environment and our internal operating and risk conditions. Such policies clarifies the policy guidance to certain aspects of our credit business, such as customer structure, industry structure, regional structure, key business area and other aspects. In addition, the Company regularly adjusts our credit policies according to the development of and trends in the macro economy and our industry.

The Company classifies our credit assets by taking comprehensive consideration of the following factors in accordance with the standards set forth in the Guidelines on Risk-Based Classification of Loans (《貸款風險分類指引》) of the CBIRC, including the borrower's ability to repay the loan, repayment record, willingness to repay the loans, profitability of the project being financed by the loans and the status of the guarantees. The Company's credit asset risks are initially classified by client managers, then examined by the head of the marketing department and reviewed by risk management personnel and finally determined by authorized individuals.

(1) Credit risk management for corporate businesses

The Company conducts unified credit extension management system on corporate customers, and determines the credit quota and credit scheme according to certain standards and procedures on the basis of comprehensive evaluation on creditworthiness and credit risk of those customers.

The Company strictly complies with relevant regulatory requirements of the CBIRC and assigns loans (including trade finances), bill acceptances and discounting, overdrafts, bond investments, specific purpose carrier investments, opening letters of credit, factorings, guarantees, loan commitments and other businesses whose credit risks are essentially borne by the Company under our unified credit extension management. In the full coverage of various types of credit businesses, the Company determines comprehensive credit limit of single corporate customers, group customers and industry.



Management Discussion and Analysis

The Company continuously enhances the construction of our credit system, formulates the unified total financing quota management and penetrating management systems for our group customers, intensifies comprehensive management and unified control of the total financing amount of our group customers, improves standardized and normalized credit approval procedures, authorization system and position risk accountability mechanism, adjusts our credit policies in time and takes effective measures to prevent credit risks.

The Company continuously enhances the management of loan risks via the financing platforms of local governments, strictly complies with the various lending policies and regulatory requirements of the CBIRC on the financing platforms of local governments, makes dynamic adjustments to the targets of credit granting, and further optimizes the lending structure of financing platforms to prevent the credit risks that may arise from governments' financing platforms; sets credit limits for the loans of local governments' financing platforms and enhances our monitoring and management on the loan risks.

The Company continuously enhances the management of real estate loan risks. The Company engages in real estate credit business prudently, has established a guideline for development of the real estate industry business, and adjusts our credit extension plans for the real estate industry in a timely manner; regularly conducts special stress tests on our loans granted to customers in the real estate industry; sets credit limits for the loans we grant to the customers in the real estate industry and ensures that such limits are flexible and adjusted in a timely manner, as needed, and enhances our monitoring and management on the risks relating to existing loans.

The Company continuously enhances the management of loan risks for the industries with excessive production capacity, and strictly controls the loans we grant to the industries with seriously excessive production capacity such as the steel, coal, shipping and electrolytic aluminum smelting industries.

(2) Credit risk management for small and micro enterprise business

The Company conducts unified credit extension management system on small and micro enterprise customers (including individual operators), and assigns all types of credit businesses of small and micro enterprise customers (including individual operators) under our unified credit extension management. The Company actively explores a professionalized operating model, continuously improves our management system and further combs and standardizes the procedures and requirements for credit extension to gradually cultivate a unique and standard credit extension model of the Company.

The Company continuously enhances the management on the credit risks of small and micro enterprise business. The Company strengthens our measures for risk mitigation, and strictly controls the overdue loan and non-performing loans by ways of tracking overdue loans and on-site & off-site monitoring.

(3) Credit risk management for personal loans

The Company actively builds our credit evaluation system for personal loans, develops and designs personal loan products with complete functions and strong risk resistance capability. The Company has also formulated the entry barriers for different groups of customers, controls the overall limits of personal loans, restrains loans with multiple borrowers as well as improves and optimizes governance mechanism of credit risk for personal loans. The Company has continuously enhanced the selection and management of guarantee, and improved our ability to mitigate credit risks. The Company has also implemented focused review and approval of personal housing loans and personal consumption loans, enhanced standardization and normalization in personal loans and our subsequent management such as post-loan monitoring, collection of overdue loans and disposal of non-performing loans, to ensure our asset quality at a satisfactory level.

Management Discussion and Analysis

(4) Credit risk management for credit card business

The Company has established a credit card risk management system featuring prior-business risk prevention, on-going risk monitoring during the process and post-business risk management. The Company has formulated a series of rules and policies to standardize various business procedures, such as marketing and promotion procedures of credit cards and credit extension approval procedures. For better management of risks with respect to our credit card business, the Company has established a credit control center, a risk management center and an asset safety center under our credit card department for prior-business risk prevention, on-going risk monitoring during the process and post-business risk management to take charge of the design and operation of the process for card issuance business, determination and control of our overall business risk tolerance, as well as the risk identifying, measuring, monitoring, assessment, control, mitigation and disposal during and after the grant of a loan.

(5) Credit risk management for inter-bank finance business

The Company's inter-bank finance business mainly comprises financial inter-bank business, money market business, investments and transactions business in bonds and other financial assets and foreign exchange and derivatives trading business. The credit risk faced with us is concentrated in money market business, bond investment business and financial inter-bank business.

The Company's inter-bank finance business involving customer's credit risk must be included in our unified credit extension management system. When conducting money market business, we will draw up the customer's credit lines in accordance with the relevant policies for centralized risk management of customer's risk.

We manage the risks in our bond investment business through access criteria, credit limit control and credit extension risk assessment; the bond investment business is included in our unified credit extension management system. The credit risk of the invested bonds is tracked and monitored together by traders in the front office and the relevant risk management departments. In addition, the relevant risk management departments will also evaluate the credit risk of the invested bonds regularly.

The Company assigns financial institution customers under the customer scope of unified credit management. The Company has formulated the management measures and relevant operating procedures for the unified total financing amount of financial institution customers, improved a series of systems and procedures for the investigation, examination and approval of unified credit extension of financial institution customers and carried out the risk classification and duration management of the financial inter-bank business.

3. MARKET RISK MANAGEMENT

Market risk refers to the risk from losses of on- and off-balance sheet businesses due to unfavorable changes in market prices (interest rates, exchange rates, stock prices and commodity prices). Market risk can be divided into interest rate risk, exchange rate risk, stock price risk and commodity price risk arising from adverse changes in interest rates, exchange rates, stock prices and commodity prices respectively. The term "market risk" in this section refers specifically to market risk other than interest rate risk in the banking book (for details for interest rate risk in the banking book, see "7. Interest rate risk management of banking book" below).

The objectives of our market risk management are to control our market risk within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.



Management Discussion and Analysis

The Company's market risk management system consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, risk management department, financial market risk control department, financial market department, asset and liability management department, other business departments, information technology departments and audit departments of the head office, as well as branches, sub-branches and subsidiaries. The senior management is responsible for implementing and organizing the market risk management, as well as formulating and carrying out relevant systems and policies for market risk management.

The Company mainly takes the measures such as position setting management, limit management, hedging and reducing risk exposures to control market risk. The Company adopts the market risk measurement methods, such as duration analysis, foreign exchange exposure analysis, scenario analysis, sensitivity analysis, etc., and conducts stress tests for market risk on a quarterly basis. The Company has established market risk management system pursuant to the relevant measures and guidelines of CBIRC, formulated market risk management policies and procedures applicable to our business nature, scale, complexity and risk features, and maintained such policies and procedures in accordance with our overall business development strategy, management capabilities, capital strength and overall risk level that can be borne by the Company.

During the reporting period, the Company has formulated market risk preferences and index system, revised the primary institution for market risk management, and established separate administrative measures for major aspects of classified management of trading books and banking books, market risk limit management, market risk measurement, etc. on the basis of the original implementation rules for market risk management, which further improved the market risk management systems. The Company has updated the market risk management plan, updated and clarified the management requirements for limit index, threshold, monitoring frequency, business coverage range, etc. The Company also conducts market risk measurement, monitoring and routine management by using the middle office management module of capital trading system (SUMMIT system), and starts to establish the independent market risk management system. The Company evaluates the positions of our trading book on a daily basis, continuously monitors trading limits, stop-loss limits and risk limits, and regularly measures the market risk for our trading book through stress testing and other methods.

4. LIQUIDITY RISK MANAGEMENT

Liquidity risk refers to the risks of failure to obtain adequate funds in time at reasonable cost to repay debts when they are due, perform other payment obligations and meet other capital requirements in the ordinary course of business. The factors that influence the liquidity risk are divided into external factors and internal factors. The external factors include domestic and foreign financial conditions, macroeconomic policies, depth and tightness of developments of financial markets and the competition outlook of the banking industry. The internal factors include the maturities of assets and liabilities, business structures, the stability of deposits, the ability to obtain financing in the market and various unexpected events.

The objectives of our liquidity risk management are to ensure our liquidity needs can be satisfied in time at reasonable cost, and control our liquidity risk within a reasonable range acceptable to us.

Management Discussion and Analysis

The Company's liquidity risk management system consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, asset and liability management committee, risk management department, asset and liability management department, other business departments, information technology departments and audit departments of the head office, as well as branches, sub-branches and subsidiaries. The senior management is responsible for implementing and organizing the liquidity risk management, as well as formulating and carrying out relevant systems and policies for liquidity risk management.

The Company managed our liquidity risk in a centralized manner. By establishing a scientific and perfect liquidity risk management system, the Company can effectively identify, measure, monitor, control and report the liquidity risk. Specific liquidity risk management measures include: establishing basic systems for liquidity risk management, paying close attention to both domestic and foreign macroeconomic situations and market liquidity changes, as well as adjusting our asset and liability management strategy in a timely manner; strengthening debt management, making flexible use of active debt instruments, broadening long-term sources of fund, and continuously increasing the proportion of stable liabilities; promoting the diversification of financing channels and actively expanding financing channels while maintaining good relations with major financing counterparts; strengthening the pre-warning monitoring and management on liquidity, optimizing our emergency response program for liquidity risk and conducting emergency drills on a regular basis; conducting stress tests for liquidity risk on a regular basis, identifying the weak links in the Company's liquidity risk management according to the tests, adjusting liquidity risk management strategies or the size and structure of high quality liquid assets if necessary, and modifying our liquidity risk management measures in a timely manner to improve our liquidity risk management mechanism.

As of the end of the reporting period, our liquidity coverage ratio was 199.83%, our qualified liquid assets amounted to RMB157.906 billion, and the total net cash outflows over the next 30 days was RMB79.018 billion, with the liquidity ratio up to 50.90%.

5. OPERATIONAL RISK MANAGEMENT

Operational risk refers to the risk of losses that may be incurred due to inadequate or problematic internal procedures, personnel or information technology systems, as well as external events. The types of operational risk loss incidents that the Company may expose to mainly include seven categories, such as internal fraud, external fraud, employment systems and accidents on safety of working places, incidents related to client, product and business activity, damage to real property, incidents related to information technology system and incidents related to execution, delivery and procedure management.

The Company's operational risk management system consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, risk management department, internal control and compliance and legal department, other management departments, business departments, information technology departments and audit departments of the head office, as well as branches, sub-branches and subsidiaries. The senior management is responsible for implementing and organizing the operational risk management, as well as formulating and carrying out relevant systems and policies for operational risk management.



Management Discussion and Analysis

The objectives of our operational risk management are to “control our operational risk within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank adjusted with respect to risks”. The Company has established three lines of defense for operational risk management, among which, the business departments and other management departments comprise the first line of defense, the internal control & compliance management departments and risk management departments at all levels comprise the second line of defense and the audit departments comprise the third line of defense. The Company imposes whole-process management on operational risks, promotes such three lines of defense to play a role in parallel, and conducts risk control and management from different perspectives, with particular emphasis on the first line of defense to play the role of risk prevention and control.

During the reporting period, the Company managed our operational risk by following the principle of “full coverage, clearly defined responsibilities, honest report and quick response”. The Company consolidated its foundation work, improved its management mechanism and intensified its risk prevention and control approaches so as to enhance the quality and efficiency of operational risk management. The Company modified the basic systems for operational risk management, and clearly defined the responsibilities of operational risk management organizations at all levels. The Company comprehensively combed the business process, identified the risk points and control measures, completed the construction of operational risk management system and put it into operation successfully, and established the operational risk management tools in line with the requirements of the New Basel Capital Accord standards, including risk and control self-assessment, collection of key risk indicators and loss data, so as to improve the operational risk management system; optimized the functions of various business systems and enhanced the rigid control capabilities of these systems; organized all kinds of business capacity training and awareness improvement trainings for the employees, and carried out the inspection on employees’ abnormal behaviors and inappropriate positions to effectively strengthen risk management on the employees’ behaviors; the Company optimized the business continuity management tools, established the new local disaster recovery center, carried out the city-wide disaster recovery rehearsals, enhance the emergency response effectiveness and organization & management ability, so as to comprehensively improve the Company’s operational risk management level. During the reporting period, the Company’s operational risk management system operated smoothly and the overall operational risk was controllable.

6. COUNTRY RISK MANAGEMENT

Country risk refers to the risk incurred to the Company arising from the inability or refusal by the borrower or debtor to repay the debt, losses suffered by the Company or its commercial presence in such country or region and other losses suffered by the Company due to economic, political, social changes and events in a country or a region.

The objectives of our country risk management are to control our country risk within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company’s country risk management system consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, risk management department, finance & accounting department, international business department, financial markets department, personal banking department, other business departments, information technology departments and audit departments of the head office, as well as branches, sub-branches and subsidiaries. The senior management is responsible for implementing and organizing the country risk management, as well as formulating and carrying out relevant systems and policies for country risk management.

Management Discussion and Analysis

During the reporting period, the Company continuously advanced the country risk management work pursuant to the relevant measures and guidelines of the CBIRC. The Company modified the primary institution for country risk management as well as Country Risk Limits Management Methods of China Zheshang Bank (《浙商銀行國別風險限額管理辦法》) and Country Risk Limits Management Schemes of China Zheshang Bank (《浙商銀行國別風險限額管理方案》), clarified the organizational structure and division of responsibilities, limits framework, management mechanism, etc. with respect to country risk limits management, and set the index and threshold of country risk limits; and regularly conducted assessment and monitoring on country risk, and withdrew the provisions for country risk.

7. INTEREST RATE RISK MANAGEMENT OF BANKING BOOK

Interest rate risk in the banking book is the risk of loss in the overall gain and economic value of the banking book arising from adverse movements in interest rate and term structure etc.

The objectives of our interest rate risk management of banking book are to control our interest rate risk in the banking book within a reasonable range acceptable to us and maximize the comprehensive benefits across the Bank denominated in local currency and adjusted with respect to risks.

The Company's interest rate risk management system of banking book consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, asset and liability management committee, risk management department, asset and liability management department, other business departments, information technology departments and audit departments of the head office, as well as branches, sub-branches and subsidiaries. The senior management is responsible for implementing and organizing the interest rate risk management of banking book, as well as formulating and carrying out relevant systems and policies for interest rate risk management in the banking book.

The Company mainly evaluates our interest rate risk through sensitivity analysis. Based on our judgment on the trend of the benchmark interest rate and the market interest rate, the Company actively adjusts the interest rate sensitivity gap between our assets and liabilities mainly by adjusting and controlling the loans price-resetting period and the duration of our bond investment business. In the meanwhile, the Company pays close attention to the interest rate trend in local currencies and foreign currencies, keeps abreast of the changes in the market interest rates, conducts appropriate scenario analysis and adjusts the pricing methods for the interest rates of loans and deposits denominated in local currencies and foreign currencies in a timely manner to strive to prevent interest rate risk.

8. REPUTATIONAL RISK MANAGEMENT

Reputational risk refers to the risk that a stakeholder will have a negative view on the Company as a result of our operations, management and other activities or external events.

The objectives of our reputational risk management are to correctly respond to news relating to us, public opinions towards us and our relationships with our customers, actively and effectively prevent reputational risk and respond to reputational events, so as to reduce and mitigate the losses of and the negative impact of such events on the Company, stakeholders and the social public to the greatest extent. The Company's reputational risk management has been included in corporate governance and comprehensive risk management system.

The Company's reputational risk management system consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, risk management department, executive office, the Board office, internal control and compliance and legal department, information technology department, audit department, other relevant departments of the head office, as well as branches, sub-branches and subsidiaries. The senior management is responsible for implementing and organizing the reputational risk management, as well as formulating and carrying out relevant systems and policies for reputational risk management.



Management Discussion and Analysis

During the reporting period, the Company modified the basic system for reputational risk management, formulated the implementation rules for reputational risk management and the contingency plans for reputational risk events, to further optimized the reputational risk management system; strengthened the training plan and performed the implementation with respect to reputational risk management; enhanced our management capabilities at the source, raised staff performances levels and actively carried out trouble-shooting of potential accidents so as to reduce the occurrence of reputational risk events; improved contingency plans, and specified the procedures and reporting mechanism for dealing with reputational risks; reinforced the building of press spokesmen team and intensified the guidance for social opinion to raise the ability to respond to crisis; stepped up positive publicity efforts to elevate the prestige of our brands.

9. STRATEGIC RISK MANAGEMENT

Strategic risk refers to the risk incurred arising from the improper operational strategy or external business environment changes, including improper strategic design, inappropriate strategic implementation, and inapplicable strategy arising from changes in internal and external environment.

The objective of our strategic risk management is to control our strategic risk within a reasonable range acceptable to us by continuously improving the strategic risk management system.

The Company's strategic risk management system consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, risk management department, development and planning department, information technology department, audit department, other relevant departments of the head office, as well as branches, sub-branches and subsidiaries. The senior management is responsible for implementing and organizing the strategic risk management, as well as formulating and carrying out relevant systems and policies for strategic risk management.

Based on the principle of "Clear responsibilities, Prospective prevention, Overall evaluation, Proper adjustment", the Company constantly perfects the strategic risk management system suitable to the scale and feature of business to maintain the robust and efficient operational strategy, and illustrates the strategic risk situation and management information by periodic reports to ensure the impact to be caused by factors such as macro-policies, industry risk etc. is in a controllable state and achieve the effective management over strategic risk.

During the reporting period, the Company modified the basic strategic risk management system, and improved the strategic risk management system and mechanism; continuously carried out propaganda of the "Third Five-Year" plan strategies and implementation of the strategic measures, and promoted orderly the strategic implementation; strengthened innovative implementation and active management, intensified the strategic risk responsiveness ability; followed the industry's development trend, and elevated the strategic research, analysis, pre-judgment and evaluation level; formulated the annual institutional planning, explored into the "one bank one policy" management, and advanced steadily the transformation and development of branches.

Management Discussion and Analysis

10. COMPLIANCE RISK MANAGEMENT

Compliance risk refers to the risk of legal sanctions, regulatory penalties, significant financial losses and reputational losses that may result from the failure to comply with laws, regulations, rules and relevant industrial standards.

The objectives of our compliance risk management are to establish a sound compliance risk management framework and promote development of a comprehensive risk management system which enables us to operate in a lawful and compliance manner.

The Company's compliance risk management system consists of the Board of Directors, the Board of Supervisors, senior management, risk management and internal control committee, responsible person for compliance, risk management department, internal control and compliance and legal department, other management departments, information technology departments and audit departments of the head office, as well as branches, sub-branches and subsidiaries. The senior management is responsible for implementing and organizing the compliance risk management, as well as formulating and carrying out relevant systems and policies for compliance risk management.

The Company has established a relatively sound compliance risk management structure and a systematic compliance risk management system, and optimized three lines of defense for compliance risk management and dual reporting mechanism. We continuously modified, improved our compliance risk management mechanism and improved our risk management level to achieve effective control over compliance risks.

During the reporting period, the Company continuously deepened the compliance operation philosophy, and promoted compliance management efficiency effectively while exactly knowing the characteristic of the risk prevention and control under the new economic normal and sticking to the risk bottom line. The Company focused on the key points of regulation, market heats, and main points of work, and strengthened analysis, research and judgment to indicate the compliance risk; actively implemented the regulatory requirements and organized the implementation of special governance activities of "three types of violations, three types of interest arbitrages, four types of improper behaviors and ten types of chaos" to effectively prevent the operational risks and enhance the quality and efficiency of serving the real economy; profoundly took the special actions of "protected by internal control and safeguarded by compliance", initially presented the keynote of the Company's compliance culture, improved the compliance review mechanism, optimized the internal control and compliance system suitable for the Company's development, and created an internal control and compliance environment subject to sustainable development; endeavored to promote the construction of system standardization, revised The Policy on Managing Rules and Regulations, optimized basic regulations of systems, identified the system framework of "three verticals and four horizontals", improved the whole lifecycle management of the systems, and enhanced comprehensiveness and effectiveness of institutional systems by systematic analysis; completed classified and layered compliance education and training system; accelerated the construction of "3 in 1" integrated management project in respect of operational risk, internal control and compliance; persistently improved the management and control ability for legal compliance risk, preset the legal risk gateway, and made greater legal supportive efforts for daily operational activities, to guarantee healthy and stable development of the Company's business.



Management Discussion and Analysis

11. INFORMATION TECHNOLOGY RISK MANAGEMENT

Information technology risk refers to the operational, legal and reputational risks incurred arising from natural factors, human factors, technical bugs and management defects when the information technology is applied in the Company.

The objectives of our information technology risk management are to control our information technology risk within a reasonable range acceptable to us, promote business innovation, enhance application level of information technology, and intensify core competence and sustainable development capability.

The Company's information technology risk management system consists of the Board of Directors, the Board of Supervisors, senior management, chief information officer, risk management and internal control committee, information technology management committee, business continuity management committee, risk management department, information technology department, relevant departments and audit departments of the head office, as well as branches, sub-branches and subsidiaries. The senior management is responsible for implementing and organizing the information technology risk, as well as formulating and carrying out relevant systems and policies for information technology risk.

The Company established a well-organized information technology risk management mechanism and process system, and comprehensively formulated relevant system processes and implementation rules in accordance with the ISO27001 management system and regulatory requirements; established the business continuity management system, information technology outsourcing risk management system, and established a well-organized information security management system and a well-standardized information technology risk monitoring and assessment mechanism.

During the reporting period, the Company revised the basic system for information technology risk management; deeply implemented 2016-2020 Information Technology Development Plan of China Zheshang Bank (《浙商银行資訊科技2016-2020年發展規劃》) (Plan π), and advanced the construction of "three centers in two places" in an orderly manner; positively built up the safe eco-environment, and took control over Internet application security; strengthened monitoring, assessment and security detection of important information system, improved contingency plans and conducted emergency drillings. During the reporting period, the system operated steadily, without the occurrence of any substantial information technology risk event.

12. ANTI-MONEY LAUNDERING MANAGEMENT

Anti-money laundering management refers to a series of preventive measures and risk control behaviors taken to prevent the laundering activities for covering up or concealing by financial instruments the nature or source of the illegally obtained proceeds and the gains derived therefrom.

The objectives of our anti-money laundering management are to effectively identify, evaluate, monitor, control and report the money laundering risk by establishing and perfecting the internal control system suitable to the anti-money laundering requirements and our development strategy to effectively guard against and control the money laundering and terrorism financing, and crack down on compliance risk.

Management Discussion and Analysis

In accordance with the Company's governance structure, the Company has established and optimized the anti-money laundering organization framework and management mechanism, under which the Board of Directors, the Board of Supervisors, senior management and relevant departments are subject to layered management, take their respective responsibilities, coordinate and cooperate with each other.

During the reporting period, the Company carefully performed its social liability and legal obligations on anti-money laundering, continuously improved the anti-money laundering organizational framework and institutional system, accelerated the upgrade and transformation of anti-money laundering business system, promoted optimized allocation of the anti-money laundering resources, to further lay a solid foundation for the anti-money laundering work. The Company did well in identification of the anti-money laundering customers and conducting due diligence investigation of customers according to supervisory requirements, and continuously enhanced the quality and efficiency of suspicious transaction report; carefully performed the sanctions resolution of China, the United Nations and relevant countries, and strictly cracked down on the sanction bottom line of compliance risk; strengthened the product and customer money laundering risk assessment, and intensified the money laundering risk prevention control in key fields and important businesses; actively carried out anti-money laundering propaganda and training, and solidly promoted internal audit, supervision and inspection of anti-money laundering, so as to further enhance our anti-money laundering management level.

(VII) BUSINESS SUMMARY

1. CORPORATE BANKING SEGMENT

(1) Corporate business

In term of corporate business, the Company has focused on developing itself into a bank that provides corporate liquidity services, strived to promote the innovation upon product and financial services model as well as business transformation and development, actively served the key national strategies and real economy, and achieved multi-win of the society, enterprise and bank by deleveraging and lowering costs for enterprises and creating values for customers. During the reporting period, the Company's corporate business developed quickly, with a rapid growth achieved and the core competitiveness further improved. As at the end of the reporting period, the Company had 71,050 corporate customers, representing an increase of 15,590 ones or 28.11% as compared with that at the end of last year; balance of corporate loans was RMB518.597 billion, representing an increase of RMB165.397 billion or 46.83% as compared to that at the end of last year.



Management Discussion and Analysis

The Company made positive response to the changing situation, grasped the opportunity in the economy changing to “new era”, implemented the strategy of Chinese government to support the development of emerging industries and promote the transformation and upgrade of industrial structure, advanced business transformation and development, and obtained new breakthroughs. During the reporting period, the Company helped real-economy enterprises with deleveraging and cost reduction by virtue of the three platforms of pooled financing, Yiqiyin and accounts receivable chain, and served as a bank that provides corporate liquidity services to customers. Meanwhile, the Company actively implemented the strategy of “Made in China 2025”, and was the first in the industry to launch the intelligent manufacturing systematic financial solutions featured by “financing capitals, goods and services”, and built the first “intelligent manufacturing service bank” of the Company in the industry. As at the end of the reporting period, the financing balance of the Company in intelligent manufacturing segment amounted to nearly RMB39.624 billion, representing an increase of 70.88% as compared to that at the beginning of the year. In addition, the Company has positively developed market demands and business opportunities in the five emerging industries, namely information industry, new energy industry, health industry, cultural industry and modern logistics industry, and explored into a professionalized, systematized and individualized financial service model in multiple segmented fields.

(2) International business

During the reporting period, the Company’s international business achieved a rapid growth in business scale and benefits by accelerating product innovation and improving service capability. We’ve completed the international settlement of US\$66.711 billion, representing an increase of 50.12% on a year-on-year basis; the income of intermediary business amounted to RMB513 million, representing an increase of 54.65% on a year-on-year basis. According to statistics by the State Administration of Foreign Exchange, the Company’s foreign exchange receipts and payments amounted to US\$46.187 billion, representing an increase of 44.83% on a year-on-year basis, with the year-on-year growth rate ranking the first among the nationwide joint-stock commercial banks.

The Company strengthened the development of financing business. By taking full advantage of low risk and low capital occupancy features of trade financing, the Company focused on promoting business such as import letter of credit, forfaiting, and the business model of “Yongjin Export Pool + credit insurance financing”. Promote business such as specific credit insurance financing and oversee bond issuance consultancy, and establish the cross-border financing brands to meet the capital goods export and cross-border financing demands of enterprises under the background of “One Belt and One Road”. As at the end of the reporting period, the balance of trade finance amounted to US\$12.792 billion on and off the balance sheet (local and foreign currency converted to USD).

The Company develops vigorously the commissioned foreign exchange trading business. In line with the market situation, the Company accelerated product and service innovation, launched the portfolio of “Trading + Settlement” mix, “Trading + Financing” mix, and “Trading + Deposit” mix, helped enterprises lower financing costs and evade risks from foreign exchange market fluctuation. During the reporting period, our commissioned foreign exchange trading volume amounted to US\$33.575 billion, representing a year-on-year growth of 75.22%, of which spot transaction amounted to US\$16.495 billion and derivative transaction amounted to US\$17.080 billion.

Management Discussion and Analysis

The Company accelerated to promote the Internet Plus operation of international business. The Company has actively adopted the operating concept of “Internet Plus”, promoted the online service functions for international business, and made our corporate and personal online banking system cover all kinds of international businesses. The Internet-based foreign exchange trading terminal – “Zheshang Trading Treasure” was launched to help customers handle business staying at home, thus enhancing business efficiency and service experience.

(3) Corporate liquidity service bank

The Company focuses on creating values for customers, innovates upon the philosophy of “Internet + Real Economy Enterprise + Financial Service”, and established the pooled financing platform, Yiqiyin platform and accounts receivable chain platform to help enterprises with deleveraging and cost reduction, meet their “self-financing” needs, and build up the “corporate liquidity service bank”.

1. Pooled financing platform

The Company paid close attention to the two core needs of enterprises as “reducing financing costs and improving service efficiency”, brought forth new ideas in the “pooled” and “online” financing business model, introduced the online supply chain finance “1 + N” solution and “Zhizhen Loan” based on the “three pools” (namely, Yongjin Bill Pool, Yongjin Asset Pool and Yongjin Export Pool), formed into a complete set of comprehensive corporate liquidity financial service solutions, assisted enterprises to stimulate current assets such as bills receivables, accounts receivables, etc., realized online operation, self-service financing, withdrawal on demand and loan revolving for the enterprises to reduce corporate capital reserves and total loans amount, lower corporate financing leverage, reduce interest expenditure, and lower financing costs. As at the end of the reporting period, the Company had 15,524 customers of Asset Pool (Bill Pool) who signed contracts with respect to these products, representing an increase of 64.22% as compared to that at the end of last year, with an accumulated pooled asset balance of RMB285.927 billion, representing an increase of 49.60% as compared to that at the end of last year; contracted customers of Export Pool reached 2,174, with an accumulated 63,000 pooled accounts receivables, an accumulated pooled asset amount of US\$6.694 billion, and accumulated extended export receivables financing of US\$2.341 billion; about 1,326 customers have signed contracts with respect to Zhizhen Loan, with the financed balance reaching RMB34.6 billion.

2. Yiqiyin platform

Yiqiyin platform is an innovative and comprehensive financial service platform that provides cost-reducing, efficiency-increasing, safe and efficient services for its members and upstream & downstream enterprises, by innovating upon the philosophy of “Internet + Real Enterprise + Financial Service”, integrating professional technologies such as settlement, credit, financing, etc., and innovating upon the cooperation model with group enterprises, core supply chain enterprises and internet transaction platform. The Company provides custody service, liquidity service and individualized services for customers of Yiqiyin platform, which can facilitate online financing and cost reduction of the supply chain upstream & downstream enterprises, and support core enterprises to build up a good supply chain ecosystem.



Management Discussion and Analysis

3. *Accounts receivable chain platform*

The accounts receivable chain platform is another significant innovation of the Company by applying the block chain technology to corporate accounts receivable business to enhance the corporate liquidity service. It is a company-bank cooperation platform dedicated to handling the issuance, acceptance, confirmation, payment, transfer, pledge and redemption of corporate accounts receivable, which is designed and developed by the Company on the basis of Internet and block chain, and for the purpose of solving the pain points and difficulties in corporate accounts receivables; through such platform, the corporate accounts receivables can be converted to electronic payment settlement and financing instruments, help the enterprises mobilize liquid assets, reduce accounts payable, activate accounts receivable, realize “deliverable and cost reduction”, assist the enterprises in reducing costs and increasing efficiency, and alleviate the difficult and expensive financing problems of small and medium enterprises.

2. INTER-BANK FINANCIAL SEGMENT

(1) **Business overview**

The Company's inter-bank financial segment has actively implemented the corporate requirements of “Creating Most Competitive Medium-sized Banks” and the full-asset class operation strategy, enhanced the quality and efficiency of serving real economy according to the concept of “cross-market, specialized and one-stop service”, actively adapted itself to market and policy changes, expedited the business transformation and development, linked with the relevant departments, constantly innovated and perfected the product and business modes according to client needs, promoted structural optimization and risk control, and continually improved market influence. During the reporting period, various businesses in the inter-bank financial segment achieved healthy development.

(2) **Financial market business**

In terms of the financial market business, the Company made positive efforts to establish a comprehensive FICC (Fixed Income, Currency & Commodity) trading platform integrating proprietary investing and financing, proprietary trading and commissioned trading, and continually strengthened business innovation and customer service of cross-board, cross-market and cross-assets types, promoted business in synergy with relevant departments and branches. During the reporting period, the Company was honored as the “RMB to foreign currency forward-swap market maker in the inter-bank foreign exchange market”, and became a pilot member of implied volatility curve quotation group for gold inquiry options at Shanghai Gold Exchange.

For local currency trading, the Company adopted a defensive strategy, strictly controlling the position and duration of the bonds, effectively managing the upward rate of return on the local currency bond market and avoiding market risks. Meanwhile, the Company vigorously promoted the underwriting and distribution of interest rate bonds and credit bonds with significantly increased underwriting volume, and introduced the local currency commissioned interest rate derivatives and the inter-bank interest rate swap services. During the reporting period, the local currency trading volume reached RMB17.72 trillion, growing by 35.66% as compared with that of last year and ranking the 20th on the market. The Company was awarded the honors such as the core trader of local currency market, outstanding currency trader, outstanding bond trader and outstanding derivatives trader.

Management Discussion and Analysis

For foreign exchange trading, the Company reinforced its judgment on the foreign exchange market, diversified its trading strategies and refined management of its trading portfolio, and actively engaged in the trading of foreign exchange derivatives to meet the needs of clients. During the reporting period, the foreign exchange trading volume in the inter-bank market reached US\$650.973 billion, increasing by 28.56% over the previous year; the commissioned trading volume of foreign exchange derivatives amounted to US\$17.080 billion, increasing by 110.89% as compared with that of last year. The Company ranked the 23rd, the 16th and the 6th respectively on the inter-bank RMB foreign exchange market, the inter-bank foreign currency market and foreign currency lending market. In the meantime, the Company continued to expand overseas trading business. During the reporting period, the Company won the 2nd place in The Asset's "Asian Best Investors (China) of Foreign Currency Bonds 2017".

For the trading of precious metals and commodities, the Company effectively grasped the precious metals market trends and cross-border, cross-market opportunities, and actively carried out precious metals trading and related brokerage trading business. During the reporting period, the Company ranked the 13th on the self-operated gold trading volume market in Shanghai Gold Exchange and ranked the 1st on the self-operated silver trading volume market. During the reporting period, the Company launched a new physical gold product, "Zengjin • Caifuji", to meet the needs of individual investors.

(3) Capital market business

During the reporting period, the Company insisted on serving real economy, and positively served the development of multi-level capital market. The Company followed the development trends and policy changes in the capital market closely, updated and optimized product system timely, enhanced service quality and efficiency by business innovation, thus improved customer satisfaction and market influence, expanded the scale of excellent customer base, and achieved the efficient, sound and sustainable development of the capital market business.

During the reporting period, the Company has actively implemented the national economic development strategies, and allocated the core assets by referring to the latest national region development plan and by focusing on the key regions and industries such as the "Yangtze River Economic Zone", the "Beijing-Tianjin-Hebei Coordinated Development Zone" and the "One Belt and One Road Economic Belt". As for the listed companies and industry leaders, the Company also provided strategic M&A and industrial integration services for customers, and coordinated in constructing the industry & finance ecosystem by means of various capital market businesses, making the number of cooperative listed companies and the fundamental customer bases further expanded. The Company insisted on the innovation-driven development strategy, and launched new products such as block trading and stock ownership incentive in view of the market development trends and customer demands, to further enrich the product lines of capital market business and enhance the customer service capability.

(4) Financial inter-bank business

In 2017, the Company accommodated to the trend and downsized the scale, resulting in a decrease in inter-bank assets as compared with last year. With the Company's aim to further optimizing the return of asset portfolio, the Company transformed its business model and actively adjusted the proportion of various inter-bank assets. The business structure of the Company is generally balanced and reasonable, and its operating efficiency is further enhanced.



Management Discussion and Analysis

In terms of bill business, the Company actively promoted major business transformation, and transfer the focus from holding to trading. As at the end of the reporting period, the trading volume of our bill business ranked high among the wight of the nationwide joint-stock banks.

In terms of business innovation, the Company positively innovated and continuously explored into product innovation. The new product “Jupiaoying” has been innovated and developed, which has been approved by Shanghai Stock Exchange for the RMB10 billion public offering of asset-backed security (ABS), and has been successfully issued for two installments. Subsequent reserve projects and issuance are being prepared.

The financial inter-bank business of the Company adhered to the principle of serving the real economy instead of the virtual economy, and adopted the mode of “disintermediation” to serve the real economy. Through actively cooperating with the corporate banking department and investment banking department, it launches a comprehensive value-added plan with low financing cost and high degree of customization for customers, giving full play to the Company’s geographical advantages to support the real economy and promote the development of inclusive finance.

(5) Asset management business

The Company’s asset management business is centered on serving our customers professionally, and aiming to build a professional platform that is equipped with cross-market and multi-tool applications, enjoys professional efficiency higher than our peers and provides one-stop solutions to fulfill customers’ investment and financing needs. The Company positively accommodated to the market and policy changes, attached importance to advancing the optimization of asset structure and customer structure, made full efforts to satisfy various investment and financing demands of individuals, companies and inter-bank customers, and strived to build a respected asset management business brand featured by “professional management, customer first, differentiated competition and leading efficiency”.

As of the end of the reporting period, the balance of our wealth management products amounted to RMB349.219 billion, representing a decrease of 18.64% as compared to that at the beginning of the year, wherein, the proportion of funds for the individuals, companies and inter-bank customers respectively represented an increase of 28.85 percentage points, a decrease of 6.26 percentage points and a decrease of 22.59 percentage points as compared to that at the beginning of the year. During the reporting period, the Company issued wealth management products of a total of RMB604.446 billion, representing an increase of 6.45% on a year-on-year basis, and realized investment income of a total of RMB17.320 billion for our customers, representing an increase of 85.64% on a year-on-year basis. The Company gained the fee income from asset management business of RMB5.513 billion, representing an increase of 1.78% as compared to last year. During the reporting period, the Company put aggressive efforts in building our asset management brand, and won the professional awards including “2017 Junding Award for Wealth Management Leaders in China” and “2017 Junding Award for Bank Wealth Management Brand in China” by the Securities Times, the “2017 Excellent Assets Management Joint-Stock Bank” and “2017 Annual Excellent Assets Management Team” by the 21st Century Business Herald, the “Best Comprehensive Wealth Management Capability Award”, “Best Return Award”, “Best Risk Control Award” and “Best Compliance Award” among wealth management institutions of the China banking industry, the “Outstanding Wealth Management Product Award” by hexun.com, the 2017 “Excellent Participating Institutions of Assets Securitization Business” by the bond market of the Shanghai Stock Exchange, the “Best Progress Award” by the National Inter-bank Lending Center, and the “Outstanding Assets Management Bank Award” and “Outstanding Investment Team” by JRJ.com.

Management Discussion and Analysis

(6) Investment banking business

The Company focused its investment banking business on high-quality basic customers, enriched and improved the investment banking product system, effectively improved its ability to serve basic customers, innovated the business model and developed distribution channels, continuously improved its market-based sales system, implemented overall risk control, strictly controlled project risks, and continued to maintain a steady development.

During the reporting period, the Company relied on a large group of high-quality basic customers in the investment banking business, successfully made use of various mature products and innovative products available on the inter-bank markets to provide investors with diversified fixed-income assets and to continuously serve the real economy. Through multiple underwriting ways like exclusive lead underwriter and co-lead underwriter, the Company underwrote various types of bonds on the inter-bank markets, such as non-financial corporate debt financing instruments, local government bonds, financial bonds, and asset-backed securities, amounting to RMB136.509 billion. The Company's investment banking business was awarded the "2017 Junding Award of Investment Banking (Industry) in China District" and the "2017 Junding Award of Bond Underwriting Bank in China District" by the Securities Times, as well as "CRRIC Annual Trust ABN Highest Market Influence" by the Caishiv China.

(7) Asset custodian business

The Company actively responded to the challenges posed by the changes in the "comprehensive asset management" industry, adhered to the "one-stop" financial service philosophy of inter-bank financial segment, deeply explored the market demand and rapidly developed in a short period of time, ranking in the leading position among banking custodian institutions for the increase in assets under custody and custody fees. During the reporting period, the Company enhanced its operational efficiency and service quality through the optimization of the custody system. The Company has established a special custody service platform consisting of three functional systems: custody business support, custody business processing and custody business public network service. As at the end of the reporting period, the balance of assets under custody reached RMB1.77 trillion, representing an increase of 24.33% on a year-on-year basis and achieving a steady growth, of which the size of assets under public offering funds was RMB83.910 billion, representing an increase of 318.57% on a year-on-year basis; the accumulated income from custody fees amounted to RMB499 million, representing an increase of 159.42% on a year-on-year basis.

3. LARGE RETAIL SEGMENT: SMALL ENTERPRISE BUSINESS

During the reporting period, the Company insisted on "inclusive finance", "green finance" and "scientific finance", established the inclusive finance business department, and built a bank providing customized services for small and micro enterprises, to promote the rapid and healthy development of inclusive finance. As at the end of the reporting period, the balance of national-standard small and micro enterprise loans of the Company was RMB182.205 billion, representing an increase of RMB38.576 billion or 26.86% as compared to that at the end of last year, which exceeded the annual incremental assessment targets for small and micro enterprise loans of the CBIRC, with the loan application approval rate and number of customers up to the standard. Meanwhile, the asset quality of small and micro business assets maintained at a good level. As of the end of the reporting period, the non-performing ratio was 0.95% and the overdue rate was 1.20%, representing a decrease of 0.34 and 0.65 percentage points respectively as compared to that at the beginning of the year. Small and micro business showed obvious increase in returns, with the interest rate of 0.18 percentage points higher than other loans as compared to that at the beginning of the year.



Management Discussion and Analysis

The Company innovates marketing and enlarge the fundamental customer base, promote the rapid growth of small and micro customer groups by cluster development and supply chain financing of core customers. As of the end of the reporting period, the Company totally served 167,300 small and micro enterprise customers, representing an increase of 26.65% as compared to that at the end of last year. The Bank strengthened liquidity services for export small and micro enterprises, and expanded small enterprise customer groups for international business. During the reporting period, contracted small and micro enterprises reached 631 with an accumulated amount of RMB2.208 billion of the Asset Pool (Export Pool). Focus on development of customer base, provided the small and micro enterprise customers with service packages such as “small and micro settlement card” and “business fund • settlement treasury” and dedicated service of “Zenglijia”, to intensify customer viscosity. As of the end of the reporting period, the small and micro loan customers averagely used 4.52 products of the Company, nearly 0.5 more than that as compared to the beginning of the year. The Company boosted the growth of small and micro customers with considerate financial services, and endeavored to achieve common development together with customers. As of the end of the reporting period, 135 small and micro clients of the Company have been listed on the NEEQ.

The Company continues developing the characteristic advantages of our brand. By applying the “characteristic, differentiated and brand-oriented” operation philosophy, the Company innovatively presented a series of customized precuts in order to serve the new economy, new industry and new normal. During the reporting period, the Company grasped the development opportunity of “intelligent manufacturing” to promote “Zhizao Loan” product, which is customized to small and micro enterprises. As of the end of the reporting period, the Company has granted intelligent equipment loans worth of RMB114 million to 133 small and micro enterprises. The Company followed up the cutting-edge energy technology and launched the product of “Photovoltaic Loan”, which provides capital support for farmers to buy photovoltaic devices so as to support “rural area revitalization”. As of the end of the reporting period, the Company has totally granted loans of RMB25.82 million to 351 households of farmers.

The corporate connotation is enhanced by relying on financial technology. The Company actively promoted the fully online “Easy Loan” business, successfully developed sub-products and business models for different customer groups and different application scenarios, broadened the online access channels and promoted business transformation. As of the end of the reporting period, there were 3,632 customers of “Easy Loan” with the accumulated credit extension amounting to RMB393 million. After many years of hard work, the Company launched a new generation of credit line business process for small and micro business customers, basically realizing the goal of “online application, mobile investigation, data review, modular examination and approval, self-help loan withdrawal and repayment, post-loan automation”, achieving easier operation, less risk, lower cost, better experience. The Company established the small and micro business customer portrait system (SCPM) and customer value hierarchy to achieve an all-round visual display and management of customers.

4. LARGE RETAIL SEGMENT: PERSONAL BUSINESS

The Company continued to intensify the construction of personal business system by adhering to the development direction of building ourselves into “a bank for personal wealth management”, utilize the technology and philosophy of Internet financing, accelerated to enhance the innovation of personal business products and customer service experience, cultivated the individual clients base, and maintained a rapid growth in business operations.

Management Discussion and Analysis

As at the end of the reporting period, total amount of the Company's personal financial assets reached RMB272.822 billion, representing an increase of 85.36% as compared with that at beginning of the year; the number of individual effective customers reached 3,590,700 representing an increase of 70.51% as compared with that at beginning of the year.

(1) Personal deposit and loan business

The Company continued to innovate upon debt products, positively developed innovative deposit products like “Zenglijia” and “Tianlijia”, which led to the rapid growth of personal deposits. The Company continued to optimize personal loan products, quickly filled up the blank in basic products, used Internet technology to form a product system with online and offline combination, completed the centralized examination of personal consumption loans and personal housing loans, and achieved the steady and rapid development of personal loan business. As at the end of the reporting period, balance of the personal deposits was RMB55.688 billion, representing an increase of 66.00% as compared with that at the beginning of the year; balance of personal consumption loans and personal housing loans, was RMB38.486 billion, representing an increase of 197% as compared with that at the beginning of the year, with a non-performing ratio of 0.05%. The good loan quality was maintained continuously.

(2) Wealth management

The Company is committed to meeting the integrated financial needs for customer development, continuously improving its wealth management capability through financial technology. Focusing on “Finance Market” and “Wealth Cloud”, the Company enriched the wealth management product system including Yongle Finance, Characteristic Deposit, Zengjinbao and Delegated Investment & Finance, innovatively launched the comprehensive liquidity service solutions to increase customer returns on assets. During the reporting period, the balance of personal wealth management was RMB166.493 billion, accounting for 47.68% of the total wealth management balance, representing an increase of 106.47% on a year-on-year basis. The balance of new characteristic deposits reached RMB17.8 billion. The income of commission fee for agent intermediary business reached RMB105 million, representing an increase of 165.26% on a year-on-year basis. As at the end of the reporting period, balance of Zengjinbao was RMB33.030 billion, representing an increase of 170.11% as compared with that at the beginning of the year.

(3) Private banking

During the reporting period, the Company comprehensively promoted the construction of private banking business system, continuously launched the private banking investment and financing products featured by controllable risk, higher returns and diversified terms; and established the value-added service systems like “airport and high-speed rail 7x24h free car pickup” service and “Z20” high-end series activities. As at the end of the reporting period, the Company had 4,578 monthly private banking customers with the daily average financial assets of RMB6 million and above, representing an increase of 144% as compared with that of last year.

(4) Credit card business

In terms of credit card business, the Company positively accommodated to the market changes, gradually launched themed cards such as Feiniu Card, Qinghe Card, etc. by considering customer demands, upgraded relevant rights and interests of car cards, carried out marketing activities themed with “Fun Together” and “Weekly Swiping” and provided the “worry-free tax rebate” service; publicity and marketing were deeply combined by activities in Starbucks and Watsons, to continuously expand market influence; successfully launched the Zheshang Credit Card App, and innovatively developed the credit E card, to realize the real-time issuance of credit cards; continuously optimized the installment structure to improve and perfect the scenario-related installment system.



Management Discussion and Analysis

As at the end of the reporting period, the Company has totally issued 2.496 million credit cards, with 1.393 million cards newly issued during the reporting period, representing an increase of 55.17% over last year; the cumulative consumption amount was RMB26.235 billion, representing an increase of 165.66% over last year and the overdraft balance was RMB7.232 billion, representing an increase of 245.83% over the beginning of the year with the bad credit rate being 0.86%, representing a decrease of 0.12% over the beginning of the year.

5. INTERNET FINANCE AND ELECTRONIC BANKING

(1) Internet finance

During the reporting period, the Company's Internet finance business positively performing the principle of "serving the real economy instead of the virtual economy", and persisted in implementing the full-chain "financial core" project centered on the three sectors of assets, custody and payment. Our target Internet finance customers have been transformed from the Internet ecosystem to serving the real economy. Based on the innovation of scenarios, the Company designed and provided customized embedded services according to application features of various real production and living scenarios, to satisfy the strong demands of competent government departments and enterprises and institutions for intelligence, serve the real economy effectively, and formed strong competitiveness in specific industries.

(2) Electronic Banking

The Company has comprehensively formed an electronic banking services system consisting of online banking, direct selling banking, telephone banking, mobile banking, WeChat banking and self-service banking system, etc. The replacement rate of electronic banking channels reached 97.14%, reaching the leading position in the industry.

Online banking

During the reporting period, the Company continued to optimize and upgrade the online banking, and launched a brand-new interface style to greatly facilitate friendly interaction; newly added characteristic functions like Online Banking Suite 2.0 and Wealth Cloud to make the product variety meet more customer needs; optimized the Corporate Online Banking 3.0, increased new functions such as homepage work area, quick transaction, etc., making the webpage more simple and commercial, thus further improving the customer experience. As at the end of the reporting period, the number of certificate customers of our personal online banking reached 751,900, representing a year-on-year increase of 89.43%, who completed 14,719,600 various transactions via our personal online banking system, with the transaction amount of RMB688.944 billion; the number of certificate customers of our corporate reached 87,900, representing a year-on-year increase of 38.75%, who completed 31,451,400 various transactions via our corporate online banking system, with the transaction amount of RMB7,280.138 billion.

Direct selling banking

During the reporting period, the Company officially issued a new direct selling banking brand "Zhe + Bank", and launched for the first time in the industry the second category account that supports Apple Pay, which can provide the 7x24h basic financial services and trading functions for online customers, and established the "cloud-based platform", an Internet scenario marketing and promotion platform focusing on "Zhe + Bank". It was awarded as the "Top Ten Direct Selling Bank" by China's Banking Industry Development Forum. As at the end of the reporting period, the number of customers in direct selling banking reached 1,269,700.

Management Discussion and Analysis

Telephone banking (95527)

During the reporting period, the Company upholds the service motto of “beyond expectation by customer-centered and considerate services” by breaking the traditional mindset of customer service to build a multi-channel operating platform assembling telephone, Internet, SMS, WeChat, fax, e-mail, etc. Our telephone banking provides customers with the 7x24h pre-sales, in-sales and after-sales integrated services. The service content involves all of our finance businesses, with service forms including intelligent voice service, human telephone service, human online service, intelligent online robot service, WeChat, e-mail, etc. More customers could be reached by taking advantage of service contacts and natural interaction, while their needs could be deeply recognized through cross-marketing or secondary marketing. The Company carried out the pilot work of integrated full lifecycle operation model to attract, activate, publicize, maintain, mobilize and retain customers, which effectively enhanced integrated customer service capability.

During the reporting period, the Company received 3,883.5 thousand customer calls, of which 2,115.5 thousand calls were transferred to our customer service representatives, with the customer satisfaction rate up to 99.72%. The resolution rate of customer complaints reached 100%.

Mobile banking

During the reporting period, the Company launched Mobile banking 3.0 through deep integration of mobile Internet Plus technology, and released new functions and new services including AR Wealth Report, personal account classification, exclusive account manager, online customer service, JD.COM shopping guide, etc. by applying new technologies such as AR and intelligent voice search, to further enhance customer experience and intensify customer service capability. As such, it was named as the “2017 Best Mobile Banking Safety Award” by China Financial Certification Authority (CFCA) and as the “Annual Best Innovative E-marketing Brand” by 17emarketing.com. As at the end of the reporting period, the Company had attracted 1,077,100 mobile banking customers, representing a year-on-year increase of 152.93%.

WeChat banking

During the reporting period, the Company was committed to establishing WeChat banking to be an important platform for new types of financial services and brand promotion. As at the end of the reporting period, the Company had approximately 1,284,600 customers in WeChat banking, while the amount of information being read in WeChat banking exceeded 8,000,000 times. Our WeChat banking was awarded as the “2017 China Annual Best Social Media APP” by The Asian Banker.

Self-service banking

During the reporting period, the Company continued to establish the self-service banking channels to provide customers with 7x24 hours self-service banking such as automated teller machines and cash recycling systems, so as to fully meet the customer needs of deposits, withdrawals, transfers, balance inquiries, password modification and other financial services.



Management Discussion and Analysis

(VIII) INFORMATION ABOUT MAJOR SUBSIDIARIES

As a controlling subsidiary of China Zheshang Bank, Zheyin Financial Leasing obtained its business license on January 18, 2017, with a registered capital of RMB3 billion. Its business scope covers the leasing business, transfer and acquisition of financial leasing assets, investing in fixed-income securities, accepting lease deposits from lessees, accepting fixed deposits of three months (inclusive) or longer from non-bank shareholders, inter-bank borrowing, taking loans from financial institutions, overseas borrowings in foreign currencies, sale-and-disposal of the leased properties, economic consultation, and other businesses approved by CBIRC. As of the end of the reporting period, Zheyin Financial Leasing had a total number of employees of 78, total assets of RMB9,582.5849 million, net assets of 3,047.1804 million, and net profit in 2017 of 47.1804 million.

(IX) OUTLOOK

Looking into 2018, the major social contradiction in China has become the contradiction between the growing needs of a better life and unbalanced development of the people. Economic development has entered into a new era in which high-speed growth has shifted to high-quality development. Fiscal policy will maintain a positive orientation, ensure support for key areas and projects, and earnestly strengthen debt management of local government. Monetary policy will remain stable, control the money supply, maintain a reasonable growth in the scale of monetary credit and social financing, and keep the RMB exchange rate basically stable at a reasonable and balanced level. Financial regulation will guide the financial institutions to return to their original purposes, serve the supply-side structural reforms, promote the formation of a virtuous circle within the financial and real economy, finance and real estate, and financial systems, prevent and mitigate risk in key areas, and avoid systematic financial risk.

China's economy has shifted from a period of rapid growth to a period of high-quality development. It is expected that the financial industry will develop in three basic directions. Firstly, structure will be optimized, and the proportion of direct financing will gradually increase. China's financial system is dominated by indirect bank financing. Along with the rapid development of the capital market, the constant prosperity of new economy and new industries, as well as the restructuring and optimization of the economic structure, it is bound to promote the healthy development of the multi-level capital market. Secondly, the efficiency will be improved, and the price reform of financial elements will be further implemented. In the process of deepening the financial reform and the market-oriented interest rate & exchange rate reform, competition in the financial sector will become even fiercer. It will be more and more difficult to gain profits by relying solely on the advantages of the financial license and relative monopoly. Thirdly, opening-up will be expanded and the intensity of competition in the industry will continue to rise. After the CPC 19th National Congress, it has continuously released new policies and new signals for further opening-up of financial industry. This not only serves the needs of expanding opening-up, but also meets the development needs of the financial industry.

In 2018, the Company will refer to the guideline of the CPC 19th National Congress and adhere to the strategy of full asset management. It will set the tone of "strengthening superiority, breaking through difficulties and focusing on transformation" to build five major advantages, adjust the structure, consolidate the foundation, and develop a characteristic transformation path.

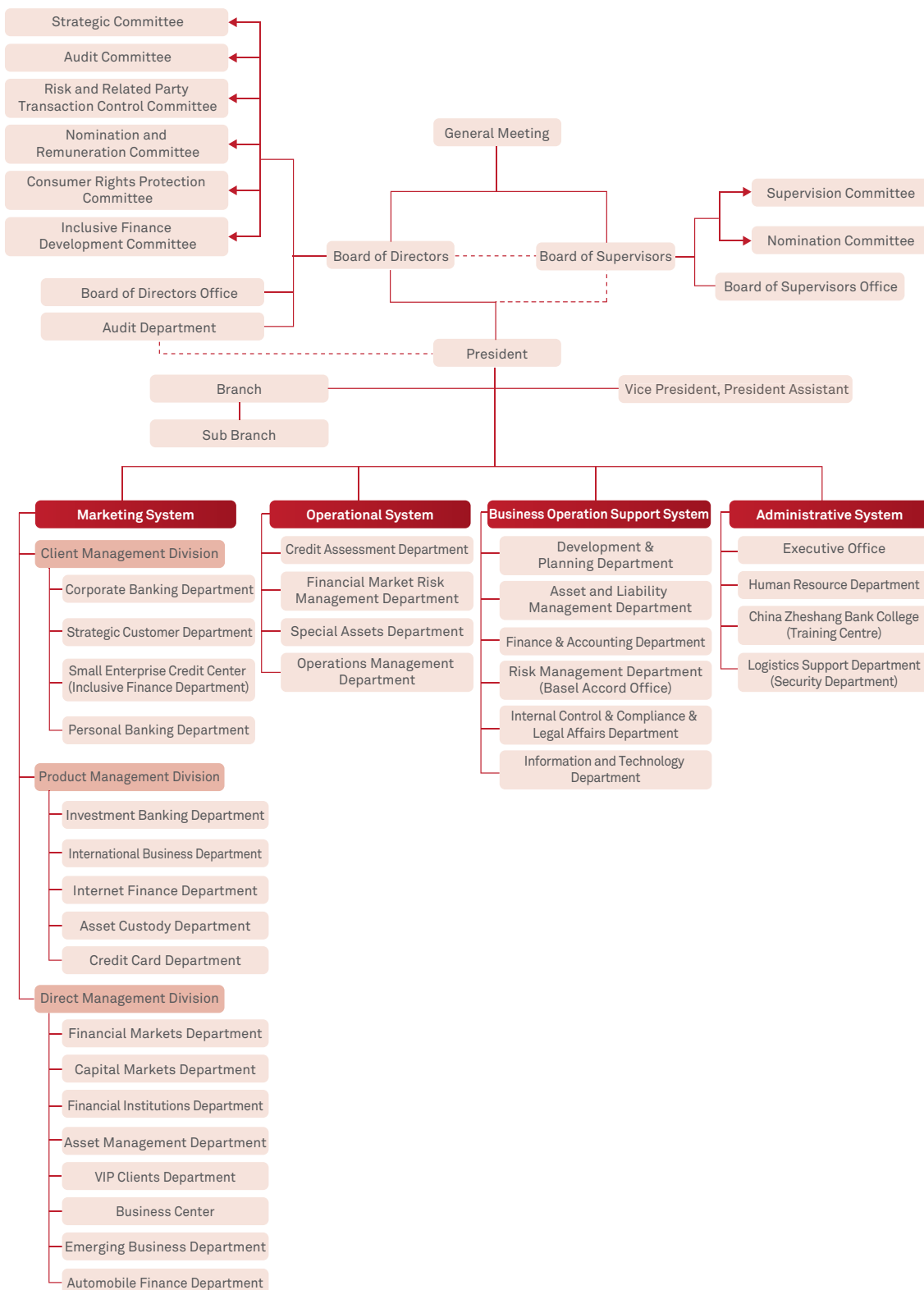
Management Discussion and Analysis

The Company will build five major advantages, gradually improve efficiency, increase yields per unit, enter into the connotative development stage, further strengthen the advantages of liquidity service bank, deepen the business advantages of interbank financial markets, accelerate the development of international business advantages, continue to give full play to the advantages of small and micro businesses, and strive to create the advantages of “a bank for personal wealth management”.

The Company will set up six concepts of serving the real economy, managing the full assets and liabilities, leading the development by technology, controlling risks by the core competence, creating value through compliance, and coordinating development in an all-round way. Meanwhile, the Company will continue to implement structural adjustment, strengthen its leadership in business policies, vigorously carry out innovation, prevent and control large-sum risks, speed up implementation of rectifications, and enhance the construction of “creativity, cohesion and fighting capacity”, so as to provide powerful guarantees for building the five competitive advantages and accelerating the transformation.

Corporate Governance Report

(I) CHART OF ORGANIZATIONAL STRUCTURE



(II) OVERVIEW OF CORPORATE GOVERNANCE

Corporate governance is a key support to realize business transformation. As a nationwide joint-stock commercial bank established in the “2000s”, the Company made unremitting efforts to pursue standardized business operation and extraordinary corporate governance. The Company has established a well-organized corporate governance structure according to the relevant laws, regulations and regulatory requirements, ensuring the governance bodies of the Company operate independently, effectively check and balance one another, cooperate with each other and operated in an coordinated manner, so as to establish a corporate governance mechanism that features clear responsibility boundaries, orderly balancing and collaboration, democratic and effective decision-making.

In 2017, the Company carefully evaluated the organizational structure and personnel composition of the Board of Directors, the Board of Supervisors and the senior management, duly adjusted the organizational structure of special committees under the Board of Directors, and timely supplemented personnel of the Board of Supervisors and the senior management; by grasping the opportunity of A-share listing, the Company revised the fundamental systems for corporate governance, including the Articles of Association, as well as terms of reference, information disclosure management measures and related party transaction management methods of the “General Meeting, Board of Directors, Board of Supervisors” and the special committees, laying a solid systematic foundation for the corporate governance; in view of the field inspection and supervision opinions of the CBIRC, a special leadership group was set up to lead relevant rectification work, so as to realize the favorable interaction between comprehensive rectification and corporate governance level.

All directors, supervisors and senior management have performed their duties diligently, were present or attended relevant meetings on time, positively participated in discussions of various issues, expressed their professional opinions prudently, paid constant attention to the Company’s business and management situations, actively participated in various trainings and seminars on specific topics, took initiatives to enhance their duty performance capability, and continuously improved the scientificity and efficiency of various decisions with high sense of responsibility and extraordinary professional qualities, thus ensuring the Company’s business conducts comply with the national laws, regulations and requirements of the regulatory authorities, and effectively safeguard the legitimate rights and interests of Shareholders.

The meetings held during the reporting period were as follows: one annual general meeting, one domestic shareholders’ class meeting, one H shareholders’ class meeting; six meetings of Board of Directors, one meeting of Strategic Committee, four meetings of Audit Committee, seven meetings of Risk and Related Party Transaction Control Committee, three meetings of Nomination and Remuneration Committee, three meetings of Consumer Rights Protection Committee; eight meetings and one special session meeting of the Board of Supervisors, two meetings of Supervision Committee and three meetings of Nomination Committee.

(III) GENERAL MEETING

The general meeting is the Company's top organ of authority. The Company raised an independent resolution for each actually independent matter at the general meeting, and voted by ballot to ensure that all shareholders fully and equally enjoy the right to know, the right to speak, the right to raise questions, the right to vote and other rights.

During the reporting period, the Company held the 2016 Annual General Meeting, the 2017 First Class Meeting for Domestic Shareholders and the 2017 First Class Meeting for H Shareholders on May 31, 2017. For details of relevant proposals and relevant announcements about resolutions adopted at the meetings, please refer to the circular for the general meetings dated April 13, 2017 and poll results announcement in connection with the general meetings dated May 31, 2017 published by the Company on the websites of Hong Kong Stock Exchange and the Company.

The convening, notifying, holding and voting procedures for the meetings are in compliance with the relevant provisions of the Company Law, the Hong Kong Listing Rules and the Articles of Association. The Chairman of the meetings has explained the detailed procedure for voting by poll to the Shareholders at the general meetings. Lawyers were invited to witness onsite and provide legal opinions for the meetings.

(IV) BOARD OF DIRECTORS

1. COMPOSITION OF THE BOARD OF DIRECTORS

As of the end of the reporting period, the Board of Directors was composed of 17 Directors, including four executive Directors: Mr. Shen Renkang, Mr. Liu Xiaochun, Ms. Zhang Luyun and Mr. Xu Renyan; seven non-executive Directors: Mr. Wang Mingde, Ms. Wang Yibing, Ms. Shen Xiaojun, Ms. Gao Qinhong, Mr. Hu Tiangao, Ms. Lou Ting and Mr. Zhu Weiming; and six independent non-executive Directors: Mr. Jin Xuejun, Mr. Tong Benli, Mr. Yuan Fang, Mr. Dai Deming, Mr. Liu Pak Wai and Mr. Zheng Jindu. Not less than 1/3 of the members of the Board of Directors were independent non-executive Directors, and at least one of the independent non-executive Directors fully complied with the Rule 3.10(2) of the Listing Rules, who had appropriate professional qualifications or accounting or related financial management expertise. The number and composition are in compliance with relevant laws, regulations and requirements of the Hong Kong Listing Rules.

Mr. Liu Xiaochun resigned from his positions as an executive director, the vice chairman and the president of the Company and a member of the strategic committee and inclusive finance development committee of the Board due to adjust of his work arrangement with effect from April 18, 2018. Mr. Liu Xiaochun has confirmed with the Company that he has no disagreement with the Board and there is no matter in relation to his resignation that needs to be brought to the attention of the shareholders of the Company and the Hong Kong Stock Exchange.

The Board of Directors was rationally structured with experienced members. The executive Directors are diligent, professional and efficient, while the non-executive Directors are equipped with rich banking or enterprise management experiences, and the independent non-executive Directors' knowledge and background covering various areas including economy, finance, securities, accounting and law.

Corporate Governance Report

2. BOARD DIVERSITY POLICY

The Company considers the diversity of the members of the Board of Directors as an important impetus to support the Company in enhancing the corporate governance level and achieving sustainable development. The Company has formulated the Board Diversity Policy of China Zheshang Bank Co., Ltd. according to the relevant provisions of the Hong Kong Listing Rules. It is expressly provided in the Policy that the Board of Directors shall consider various aspects and diversified factors when determining the composition of the Board, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and/or service period, thus ensuring the Board of Directors have diversified viewpoints and viewing angle in performing their duties, and forming into a composition model of the Board matched with the Company's development model.

The Board Diversity Policy of the Company comprises of chapters such as purpose, philosophy, policy statement, expected objective, supervision and reporting, with the main purpose of recognizing and accepting the philosophy of building a diversity of the Board to strengthen the execution of the Board, and affirming the importance of diversity of the Board to achieve strategic objectives. During the reporting period, the geographical distribution, educational background and professional experience of members of the Board are relatively diversified. Among the incumbent 17 Directors, five of them are female, and 11 are with post graduate diploma or above, including two with doctoral diploma and one director ordinarily residing in Hong Kong. The diversified composition of the Board brings a broad vision and a high level of professional experience to the Board and maintains an independent element within the Board to ensure that the Board is able to effectively make independent judgments and scientific decision when studying and considering material issues.

3. RESPONSIBILITIES OF THE BOARD OF DIRECTORS

According to the Articles of Association, the Board of Directors is the decision-making organ of the Company and shall undertake ultimate responsibility for the operation and management of the Company. The main responsibilities are as follows: to convene general meetings, present proposals and report to shareholders at the general meetings; to implement the resolutions of the general meetings; to formulate medium and long-term development plans and development strategies of the Bank and supervise the implementation of such development plans and development strategies; to decide the annual appraisal indices for the operation of the Bank and approve the annual operation plans of the Bank; to formulate our annual financial budgets and final accounts; to formulate our profit distribution plans and plans for recovery of losses; to formulate proposals for increase or decrease of our registered capital, issuance of shares or bonds with the capital replenishment nature; to decide on issuance of bonds other than those with the capital replenishment nature by the Bank; and to formulate proposals for merger, demerger, dissolution and liquidation of the Bank.

The senior management has the rights to make decision in daily operation independently under the authority of the Board, and the Board will not intervene specific daily affairs of the Company.

The Board is responsible for carrying out the corporate governance functions and has fulfilled their duties and responsibilities, as set out in Code Provision D.3.1 of the Corporate Governance Code. During the reporting period, the Board and its committees reviewed the Company's compliance with laws, regulatory provisions and the Corporate Governance Code and disclosures in the Corporate Governance Report, reviewed and monitored the training and continuous professional development of Directors and senior management, strengthened the Company's risk management and internal control, and further enhanced the Company's corporate governance policy and practices.



Corporate Governance Report

4. MEETINGS AND PROPOSALS OF BOARD OF DIRECTORS

During the reporting period, the Company held six meetings of Board of Directors, among which four were regular meetings and two were interim meetings. The main proposals considered at the Board meetings were as follows:

- Work Report of the Board of Directors of China Zheshang Bank for 2016
- Work Report of President of China Zheshang Bank for 2016
- Final Financial Report of China Zheshang Bank for 2016
- Profit Distribution Plan of China Zheshang Bank for 2016
- Business Operation Plan of China Zheshang Bank for 2017
- Annual Budget Report of China Zheshang Bank for 2017
- Report on Comprehensive Risk Management of China Zheshang Bank for 2016
- Basic System for Comprehensive Risk Management of China Zheshang Bank
- Internal Audit Work Report of China Zheshang Bank for 2016
- Report of connected transaction management system implementation and information of connected transaction of China Zheshang Bank for 2016
- Proposal on Result of Director Performance Appraisal by the Board of Directors of China Zheshang Bank for 2016
- Resolution on the Proposal Regarding the Initial Public Offering and Listing of the A Shares of China Zheshang Bank Co., Ltd
- Proposal on Issuance of Renminbi Financial Bonds
- Social Responsibility Report for 2004 to 2016 of China Zheshang Bank
- Resolution on the Proposal Regarding the Establishment of Inclusive Finance Development Committee of the Board and Inclusive Finance Business Department
- Resolution on the Proposal Regarding the Institutional Development Plan of China Zheshang Bank for 2018

Corporate Governance Report

5. ATTENDANCE OF DIRECTORS AT THE MEETINGS

The following table sets forth the records of attendance of each director at the meetings convened by the Board of Directors and by special committees under Board of Directors and at the shareholders' general meetings held in 2017.

Director	Board of Directors	Strategic committee	Audit committee	Risk and related transaction control committee	Nomination and remuneration committee	Consumer Rights Protection Committee	General meeting
Executive Directors							
Shen Renkang	5/6	0/1	-	-	-	-	1/1
Liu Xiaochun	5/6	1/1	-	-	-	-	1/1
Zhang Luyun	5/6	-	-	-	-	-	1/1
Xu Renyan	5/6	-	-	-	-	-	1/1
Non-executive Directors							
Wang Mingde	6/6	1/1	-	-	-	-	1/1
Wang Yibing	6/6	-	-	-	-	-	1/1
Shen Xiaojun	6/6	-	4/4	-	-	-	1/1
Gao Qinhong	5/6	-	-	5/7	-	2/3	1/1
Hu Tiangao	4/6	-	3/4	-	-	-	1/1
Lou Ting	4/6	1/1	-	-	-	-	1/1
Zhu Weiming	6/6	-	-	-	-	-	1/1
Independent non-executive Directors							
Jin Xuejun	6/6	-	4/4	-	3/3	-	1/1
Tong Benli	6/6	-	4/4	7/7	3/3	3/3	1/1
Yuan Fang	6/6	-	4/4	6/7	-	2/3	1/1
Dai Deming	6/6	1/1	-	-	-	-	0/1
Liu Pak Wai	4/6	1/1	-	-	-	-	1/1
Zheng Jindu	4/6	-	-	-	2/3	-	1/1

Notes:

- (1) Times of attention in person/number of meetings that he/she should attend during the reporting period.
- (2) The above Directors who did not attend the meetings in person had appointed other Directors to attend such meetings on their behalf.
- (3) The annual general meeting for 2017, the 2017 first class meeting for domestic shareholders and the 2017 first class meeting for H shareholders held on May 31, 2017 have been counted as one general meeting.
- (4) On October 12, 2017, the Company held the 2017 second interim meeting of the fourth session of the Board of Directors, at which the Proposal on Establishing the Inclusive Finance Development Committee of the Board and the Inclusive Finance Business Department was considered and approved, to establish the Inclusive Finance Development Committee under the Board. During the reporting period, the Inclusive Finance Development Committee didn't hold any meetings.
- (5) The Chairman held a meeting with non-executive Directors (including independent non-executive Directors) without the attendance of executive Directors.

Corporate Governance Report

6. INFORMATION ON SURVEY AND TRAINING OF THE DIRECTORS

During the reporting period, in order to know about the progress of the branches in implementing the full-asset class operation strategy, analyze the benchmarking management and risk management situation of the branches, listening to their opinions and suggestions for business operations and management of the Board of Directors and the head office, some members of the Board of Directors arrived at the branches in Lanzhou and Xi'an to carry out field survey, collect the first-hand materials, and put forward specific guiding opinions by combining local economic development conditions and operation management situations of the branches.

The Company has been attaching importance to continuous training of Directors. During the reporting period, the Company has retained the intermediary agencies to train the Board members about A-share listing, organized the self-learning of laws and regulations such as the Measures for the Administration of Initial Public Offerings and Listing of Stocks《首次公開發行股票並上市管理辦法》, Stock Listing Rules of the Shanghai Stock Exchange《上海證券交易所股票上市規則》, Administrative Measures for Securities Issuance and Underwriting《證券發行與承銷管理辦法》, etc., and offered concentrated lectures titled “Systems and Procedures Related to A-Share IPO”, “Corporate Governance of A-Share Listed Companies”, “Information and Financial Disclosure Requirements for A-Share Listed Companies” etc. Moreover, members of the Board of Directors actively participated in various lectures and trainings such as CZBank Lecture Class Summit Forum, Qiantangjiang Forum “Chinese Economy and Finance” Parallel Summit, etc., with the aim of broadening their horizon of macro decision-making, strengthening their capacity of interpreting major policies, and consolidating the intellectual capital of the Board of Directors.

According to the training records for 2017 kept by the Company, the status of relevant trainings for Directors is as follows:

Directors	Provision of Information and Scope of Trainings		
	Corporate Governance	Finance/Business	Compliance/Operation
Executive Directors			
Shen Renkang	✓	✓	✓
Liu Xiaochun	✓	✓	✓
Zhang Luyun	✓	✓	✓
Xu Renyan	✓	✓	✓
Non-executive Directors			
Wang Mingde	✓	✓	✓
Wang Yibing	✓	✓	✓
Shen Xiaojun	✓	✓	✓
Gao Qinhong	✓	✓	✓
Hu Tiangao	✓	✓	✓
Lou Ting	✓	✓	✓
Zhu Weiming	✓	✓	✓
Independent non-executive Directors			
Jin Xuejun	✓	✓	✓
Tong Benli	✓	✓	✓
Yuan Fang	✓	✓	✓
Dai Deming	✓	✓	✓
Liu Pak Wai	✓	✓	✓
Zheng Jindu	✓	✓	✓

7. PERFORMANCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

As of the end of the reporting period, the Company had six independent non-executive Directors, fulfilling the number and percentage requirements of CBIRC, CSBC and the Hong Kong Listing Rules. The Audit Committee, Risk and Related Party Transaction Control Committee, Nomination and Remuneration Committee and Consumer Rights Protection Committee under the Board were all chaired by independent non-executive Directors, and the Independent non-executive Directors formed majority in the three committees. During the reporting period, the Independent non-executive Directors actively participated in and provided suggestions and advices at the meetings of Board of Directors and the special committees to make effective contribution. Besides, they maintained effective communication with the Company through various means, including site visits, special surveys and attending trainings etc.

The independent non-executive Directors have presented their professional advice on the resolutions considered by the Board of Directors, including offering independent written opinions on significant matters, such as the Profit Distribution Scheme, the appointment of senior management, the engagement of auditors and significant related party transactions. In addition, for the special committees under the Board of Directors, the independent non-executive Directors made full advantage of their professional edge, provided professional and independent advice regarding corporate governance and operation management of the Company, and thereby ensured the scientific decision-making of the Board of Directors.

The Company has received the annual confirmations from the independent non-executive Directors according to Rule 3.13 of the Hong Kong Listing Rules regarding their independence, and considered that the independent Non-Executive Directors were not involved in any factor set out in Rule 3.13 of the Hong Kong Listing Rules that may cast doubt on their independence. Therefore, the Company believes that all independent non-executive Directors meet the independence criteria as set out in the Hong Kong Listing Rules.

8. RESPONSIBILITIES OF DIRECTORS IN PREPARATION OF FINANCIAL REPORTS

The Directors of the Company acknowledged that they were responsible for preparing the financial report of the Company for the year ended December 31, 2017. The Board of Directors undertook that there were no any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, save for the information disclosed in this annual report of the Company.

The Directors shall review and confirm the financial reports for each accounting period, so as to ensure that the financial reports truly and fairly reflect the financial status, operation results and cash flow of the Company.

When preparing the financial report for the year ended December 31, 2017, the Directors adopted and applied suitable accounting policies and made prudent and reasonable judgment.

9. ELECTION, CHANGE AND REMOVAL OF DIRECTORS

According to the Articles of Association, the Directors shall be elected or replaced at the general meeting and shall each serve a term of three years. Directors may, after expiry of their term of office, hold a consecutive term upon re-election. A director, before his term of office expires, shall not be dismissed by the general meeting without any cause. The term of a Director shall start from the date of appointment to the expiry of the current session of the Board.

A director may be removed by an ordinary resolution at a general meeting before the expiry of his/her term of office in accordance with relevant laws and regulations (however, any claim which may be made under any contract will not be affected).

For the change of Directors during the reporting period, please refer to “Directors, Supervisors, Senior Management, Employees and Institutions” of this report.

(V) SPECIAL COMMITTEES UNDER BOARD OF DIRECTORS

There are six special committees under the Board of Directors of the Company, including Strategic Committee, Audit Committee, Risk and Related Party Transaction Control Committee, Nomination and Remuneration Committee, Consumer Rights Protection Committee and Inclusive Development Committee.

1. STRATEGIC COMMITTEE

As of the end of the reporting period, the Strategic Committee of the Company consisted of six Directors. Mr. Shen Renkang, chairman and executive Director of the Board, served as the committee chairman. Mr. Liu Xiaochun, vice chairman and executive Director of the Board, and Mr. Wang Mingde, vice chairman and non-executive Director of the Board, served as the vice committee chairman. Other committee members included Mr. Dai Deming, independent non-executive Director, Mr. Liu Pak Wai, independent non-executive Director and Ms. Lou Ting, non-executive Director. Mr. Liu Xiaochun has resigned from his position as a member of the strategic committee of the Company with effect from April 18, 2018.

According to the Articles of Association, the main duties of the Strategic Committee are as follows: to research and formulate business targets, medium and long-term development plans and development strategies of the Company; to supervise and inspect the implementation of annual business plans and investment plans; and to deal with other matters as authorized by the Board.

During the reporting period, the Strategic Committee mainly considered the Final Financial Report for 2016, Profit Distribution Plan for 2016, Business Operation Plan for 2017, Annual Budget Report for 2017, Resolution on the Proposal Regarding the Initial Public Offering and Listing of the A Shares of CZBank, Resolution on the Proposal Regarding the Medium-term Capital Management Plan for 2017 to 2019 of CZBank, etc. and other proposals or reports.

Corporate Governance Report

2. AUDIT COMMITTEE

As of the end of the reporting period, the Audit Committee of the Company consisted of five Directors. Mr. Jin Xuejun, independent non-executive Director, served as the committee chairman. Other committee members included Mr. Tong Benli, independent non-executive Director, Mr. Yuan Fang, independent non-executive Director, Ms. Shen Xiaojun, non-executive Director, and Mr. Hu Tiangao, non-executive Director.

According to the Articles of Association, main duties of the Audit Committee are to examine our accounting policies, financial position, financial reporting procedures, and risk and compliance status; to propose the appointment or replacement of external auditors; to supervise our internal audit system and its implementation; to facilitate communication between internal auditors and external auditors; to review our financial information and the related disclosure and prepare conclusive reports on the authenticity, accuracy, completeness and timeliness of the audited financial reports to be submitted to our Board of Directors for consideration; to deal with other matters as prescribed by relevant laws, regulations, departmental rules and regulations of the securities regulatory authority in the jurisdiction(s) where the Company's shares are listed and as authorized by the Board of Directors.

During the reporting period, the Audit Committee mainly considered the Annual Report for 2016, Internal Audit Work Report for 2016, Proposal on Employing Accounting Firm for 2017, Interim Report for 2017 as well as other proposals or reports. The Audit Committee also reviewed the independence of external auditors and provided recommendations to the Board on the appointment of external auditors, and considered the audit fees of external auditors for 2017.

3. RISK AND RELATED PARTY TRANSACTION CONTROL COMMITTEE

As of the end of the reporting period, the Risk and Related Party Transaction Control Committee of the Company consisted of three Directors. Mr. Yuan Fang, independent non-executive Director, served as the committee chairman. Other committee members included Mr. Tong Benli, independent non-executive Director, and Ms. Gao Qinhong, non-executive Director.

According to the Articles of Association, main duties of the Risk and Related Party Transaction Control Committee are to supervise the risk control by senior management of the Company; to assess our risk profile; to offer proposals on improving our risk management and internal controls; to review and approve general related party transactions of the Company or accept the filing of general related party transactions; to review and approve of major related party transactions of the Company or the transactions which are subject to reporting, announcement and/or independent shareholders' approvals under the relevant stipulations of securities regulatory authority of listing location of the Company, which shall be submitted to the Board of Directors by the committee for approval; and to deal with other matters as authorized by the Board.

The Risk and Related Party Transaction Control Committee will review the effectiveness of the Company's risk management procedures and internal control procedures, to ensure the efficiency of the Company's business operations and achieve the Company's objectives and strategies.

During the reporting period, the Risk and Related Party Transaction Control Committee primarily examined the Basic System for Comprehensive Risk Management, the Report on Comprehensive Risk Management for the Year 2016, Report on Implementation of Related Party Transaction Management System and Particulars of Related Party Transactions for 2016, Risk Preference Management Scheme, Report on Internal Control Appraisal for 2016, the 2017 List of Related Parties of the Bank as well as other proposals or reports.

4. NOMINATION AND REMUNERATION COMMITTEE

As of the end of the reporting period, the Nomination and Remuneration Committee of the Company consisted of three Directors. Mr. Tong Benli, independent non-executive Director, served as the committee chairman. Other committee members included Mr. Jin Xuejun, independent non-executive Director, and Mr. Zheng Jindu, independent non-executive Director.

According to the Articles of Association, main duties of the Nomination and Remuneration Committee are to propose to the Board on the membership of the Board based on the business operations, asset size and equity structure of the Company; to draft the standard and procedure for the selection of Directors and senior management, and propose the same to the Board; to recommend candidates for Chairman and Vice Chairman to Board of Directors, and provide review comments on the candidates of Directors and senior management members including the President, Vice President, Financial Principal, Secretary to the Board and etc; to draft the remuneration policy and scheme for Directors and senior management, and make proposals to the Board; and to deal with other matters as prescribed by relevant laws, administrative regulations, departmental rules and regulations of the securities regulatory authority in the jurisdiction(s) where the Company's shares are listed and as authorized by the Board of Directors.

The Nomination and Remuneration Committee under the Board makes recommendations to the Board on the remuneration package of individual executive directors and senior management.

The nomination procedures for a director candidate of the Company are: the eligible shareholders will recommend candidates for directorship to the Company for consideration; the Nomination and Remuneration Committee will conduct examination of such candidates for directorship and then make recommendations to the Board; following consideration and approval of the Board, the candidates for directorship will be submitted in the general meeting by written resolutions.

During the reporting period, the Nomination and Remuneration Committee mainly considered the 2016 Appraisal Results of Duty Performance of Directors by the Board, the 2016 Appraisal Results of Duty Performance of Senior Management by the Board, 2016 Remuneration Scheme for Senior Management, Measures for Performance Appraisal and Rewards & Punishments of Senior Management for 2017 as well as other proposals or reports.

The Nomination and Remuneration Committee has established a policy on Directors' remuneration and regularly evaluated the performance of the executive Directors and approved the terms of service contracts of executive Directors. In addition, the Nomination and Remuneration Committee has implemented the policies on the nomination of directors as well as the nomination procedures and selection and recommendation criteria on candidates for directors. The Nomination and Remuneration Committee has reviewed the structure, number and composition of the Board (including skills, knowledge and experience) during the reporting period to make recommendations on any changes proposed on members of the Board for the purpose of cooperating with the long-term strategies of the Company.

Corporate Governance Report

5. CONSUMER RIGHTS PROTECTION COMMITTEE

As of the end of the reporting period, the Consumer Rights Protection Committee of the Company consisted of three Directors. Mr. Yuan Fang, independent non-executive Director, served as the committee chairman. Other committee members included Mr. Tong Benli, independent non-executive Director, and Ms. Gao Qinhong, non-executive Director.

According to the Articles of Association, main duties of the Consumer Rights Protection Committee are to formulate strategies, policies and objectives of the consumer rights protection work; to guide, urge and supervise the senior management to effectively execute and implement relevant work, and regularly listen to the senior management's special reports on the progress of consumer rights protection work; to supervise and evaluate the comprehensiveness, timeliness and effectiveness of our consumer rights protection work as well as relevant duty performance status of the senior management; and to deal with other matters as authorized by the Board.

During the reporting period, the Consumer Rights Protection Committee mainly deliberated the proposals or reports including the terms of reference of the Consumer Rights Protection Committee, Work Report on Consumer Rights Protection in 2016, Work Report on Financial Consumer Rights Protection in the first half of 2017, objectives, strategies and policies of the consumer rights protection work, etc.

6. INCLUSIVE FINANCE DEVELOPMENT COMMITTEE

As of the end of the reporting period, the Inclusive Finance Development Committee of the Company consisted of six Directors. Mr. Shen Renkang, chairman and executive Director of the Board, served as the committee chairman. Mr. Liu Xiaochun, vice chairman and executive Director of the Board, and Mr. Wang Mingde, vice chairman and non-executive Director of the Board, served as the vice committee chairman. Other committee members included Mr. Dai Deming, independent non-executive Director, Mr. Liu Pak Wai, independent non-executive Director and Ms. Lou Ting, non-executive Director. Mr. Liu Xiaochun has resigned from his position as a member of the inclusive finance development committee of the Company with effect from April 18, 2018.

Main duties of the Inclusive Finance Development Committee are to formulate the development planning of inclusive finance business, deliberate the operation plans, and evaluate the assessment methods.

(VI) BOARD OF SUPERVISORS

The Board of Supervisors is a supervisory body of the Company and is accountable to the general meetings, and oversees the strategic planning, business decisions, financial activities, risk management, internal control and corporate governance of the Company, and the duty performance of the Directors and the senior management with an aim to protect the legitimate rights and interests of the Company, Shareholders, employees, creditors and other stakeholders.

1. COMPOSITION OF BOARD OF SUPERVISORS

The Board of Supervisors of the Company consists of 12 members, of which the three shareholder representative Supervisors are from large enterprises where they have extensive experience in business management and professional knowledge in finance; the four employee representative Supervisors have participated in banking operation and administration for a long time, and thus accumulated rich professional experience in finance; and the five external Supervisors have been engaged in finance, economics, accounting, taxation, international trade, etc., and have thus accumulated extensive experience in those fields and unique perspectives. The composition of the Board of Supervisors of the Company has adequate expertise and independence which ensures the effective supervision by the Board of Supervisors.

A Supervision Committee and a Nomination Committee are established under the Board of Supervisors of the Company.

2. PERFORMANCE OF BOARD OF SUPERVISORS

The Board of Supervisors performs its supervisory duties primarily by the following several ways: holding regular meetings of supervisors and special committees to consider relevant issues, attending shareholders' general meetings, board meetings and special committee meetings; attending related meetings on operation and management held by the senior management; reviewing related work reports or professional reports of the senior management and departments; making performance appraisal on directors, supervisors or senior management; reviewing various documents, information and statements of the Company; carrying out special investigations and surveys at branches; putting forward work suggestions to the Board of Directors and senior management; appointing third-party professional agency to carry out special audit or verification & evaluation, etc.

During the reporting period, the Board of Supervisors convened eight meetings and one special session, all of which were on-site meetings. 22 proposals regarding development plans, business operations, risk management, financial activities, internal control, internal audit, corporate governance, annual report and evaluation of the duty performance of the Directors, Supervisors and senior management were considered, fourteen reports were reviewed, and three work arrangements were researched and discussed.

According to the provisions of relevant laws, regulations and the Articles of Association of the Company, the supervisors attended all general meetings, on-site meetings of the Board of Directors, four meetings of some special committees under the Board of Directors, and performed supervision on legal compliance of holding general meetings and Directors' meetings, the procedures for voting by poll as well as the Directors' attendance of meetings, providing opinions and voting, etc.

All the five external Supervisors of the Company can exercise the independent supervision function. In performing their duties, the external Supervisors took the initiative to know about the Company's operation and management situations by attending meetings of the Board of Supervisors, convening meetings of the special committees under the Board of Supervisors, being present at the meetings of the Board of Directors and its special committees and bank-wide business management meetings, participating in the survey activities of the Board of Supervisors on branch outlets, and reviewing carefully all kinds of documents, data and statements. Meanwhile, they expressed their opinions or suggestions about major issues, and exchanged opinions with the Board of Directors and senior management about the problems found out, which played an active role for the Board of Supervisors to perform their supervision duties.

During the reporting period, the Board of Supervisors of the Company had no objection to the matters supervised.

Corporate Governance Report

3. INFORMATION ON TRAINING AND SURVEY OF SUPERVISORS

During the reporting period, the Board of Supervisors organized and attended 4 trainings, and carried out 5 survey activities.

The Board of Supervisors actively organized the supervisors to participate in various training activities to enhance their duty performance capability and professional level. Such training activities included trainings about A-share listing consultation for directors, supervisors and senior management, and lectures about influence of global economic trends, international financial market and economic & financial hot spots on commercial banks, financial management, etc. They also actively participated in Qiantangjiang Forum and listened to reports and discussions about recent economic and financial hot spots, thus intensifying their pre-judgment of the economic and financial situations.

Board of Supervisor of the Company were organized during the reporting period to carry out themed surveys on business situations, large amount credit extension and concentrated risk, internal control and case prevention work in branches of Lanzhou, Tianjin, Shenzhen, Ningbo and Taizhou. Through such themed surveys, the supervisors can objectively analyze the good methods and good experiences in business management as well as major problems and difficulties confronted in strategic transformation of different branches under local regional economic environment, prepared the survey report and provided to the Board of Directors and senior management for reference in the form of Reference Information, which has brought an active effect for the Bank to improve business management.

(VII) SPECIAL COMMITTEES UNDER BOARD OF SUPERVISORS

The Supervision Committee and the Nomination Committee consisted of seven Supervisors and five Supervisors, respectively and the external Supervisor served as the committee chairman.

1. SUPERVISION COMMITTEE

The members of the Supervision Committee under the Board of Supervisors include Mr. Yuan Xiaoqiang (committee chairman), Mr. Zheng Jianming, Mr. Tao Xuegen, Mr. Zhou Yang, Mr. Zhang Rulong, Mr. Wang Jun and Ms. Cheng Huifang. Main duties of the Supervision Committee are to be responsible for drafting plans of supervision on the financial activities of the Company and conducting relevant inspections; to supervise the Board of Directors' adoption of prudent business philosophy and value standards and formulate development strategies in line with the actual situations of the Company; to regularly evaluate and report on the scientificity, rationality and effectiveness of the development strategies formulated by the Board of Directors for compilation of evaluation reports; to instruct the work of the internal audit department of the Company; to carry out a review of any resigning senior management when necessary; to supervise the duty performance by Directors, Supervisors and senior management; to supervise and inspect major operational decisions of the Company; to supervise and inspect risk management of the Company; to supervise and inspect the soundness and effectiveness of the internal control of the Company; and to deal with other matters as authorized by the Board of Supervisors.

During the reporting period, the Supervision Committee held two meetings. It considered the Annual Report for 2016 of the Company, Internal Audit for 2016, Interim Report for 2017, etc., and listened to the report on the Company's financial position in 2016, etc. Moreover, the members of the Supervision Committee also attended four on-site meetings of the Risk and Related Party Transaction Control Committee under the Board of Directors and supervised the process of consideration on related party transactions and Directors' duty performance.

2. NOMINATION COMMITTEE

The members of the Nomination Committee include Mr. Jiang Zhihua (committee chairman), Mr. Yu Jianqiang and Mr. Wang Chengliang, Mr. Ge Lixin and Mr. Huang Zuhui. Main duties of the Nominations Committee under the Board of Supervisors are to draft standards and procedures of electing and appointing Supervisors; to recommend qualified candidates of external Supervisors; to make an initial evaluation on the qualifications of candidates of shareholder representatives serving as Supervisors and external Supervisors and give suggestions to the Board of Supervisors; to propose to the Board of Supervisors candidates of chief Supervisor and deputy chief Supervisor based on the actual condition of the Company; to propose to the Board of Supervisors candidates of chairmen of various special committees; to supervise the election and appointment of Directors; to draft remuneration plans for Supervisors, make proposals to the Board of Supervisors and supervise the implementation of the said plans after they have been considered by the Board of Supervisors and have been submitted to the general meetings for consideration; to supervise the scientificity and rationality of the remuneration system and policy of the whole Bank as well as the remuneration scheme of senior management; to be responsible for drafting measures for evaluating the duty performance of Directors, Supervisors and senior management, making proposals to the Board of Supervisors and implementing these measures after submitting them to the Board of Supervisors for consideration; to assist the Board of Supervisors office with the establishment of a duty performance supervision and recording system for Directors, Supervisors and senior management and complete the duty performance supervision records; and to deal with other matters as authorized by the Board of Supervisors.

During the reporting period, the Nomination Committee under the Board of Supervisors held three meetings. It mainly considered appraisal results of duty performance of Directors, Supervisors and Senior Management for 2016 and the addition to the committees under the fourth session of the Board of Supervisors, and also summarized the work performance of the Nomination Committee for 2017 and researched the work arrangement of Directors, Supervisors and senior management for 2017.

(VIII) COMPANY OPERATION AND DECISION-MAKING SYSTEM

The general meeting is the Company's power organ which manages and supervises the Company through the Board of Directors and Board of Supervisors. The President is employed by the Board of Directors to take charge of the daily operation and management of the Company. The Company adopts the single legal person system. All the branches and sub-branches are non-independent accounting units. They carry out the operation and management activities according to the authorization of the headquarters and are accountable to the headquarters.

According to the Articles of Association, the Board of Directors exercises the functions and powers of appointing or dismissing the Bank's president, listening to the work report of the president and reviewing his performance, monitoring and ensuring the senior management's efficient fulfillment of management duties. The Company adopts a system by which the President shall assume overall responsibility in operation and management of the Company, and the President shall be accountable to the Board of Directors.

The Company has no controlling Shareholder and de facto controller. The Company and the Shareholders are completely independent in terms of assets, businesses, personnel, organisations and finance, etc.. The Company has complete and independent operation capacity. The Board of Directors, Board of Supervisors and internal units of the Company operate independently.

(IX) CHAIRMAN AND PRESIDENT

In the Company, the positions of Chairman and President are served by different persons, and each position has clearly defined responsibilities, fulfilling the requirements of the Hong Kong Listing Rules. Mr. Shen Renkang serves as the Chairman of the Company and exercises his duties to preside over the general meetings, convene and preside over the meetings of Board of Directors and supervise and inspect the implementation of the resolutions of the Board of Directors. During the reporting period, Mr. Liu Xiaochun is the President of the Company and exercises his duties to lead the operation and management of the Company, report to the Board of Directors and organize the implementation of the resolutions of the Board of Directors, the annual operation plan and investment scheme of the Company. Mr. Liu Xiaochun has resigned from his position as the president of the Company with effect from April 18, 2018. On April 18, 2018, the Board resolved to appoint Mr. Xu Renyan as the president of the Bank, which is subject to the ratification of his eligibility as the president by CBIRC.

(X) COMPANY SECRETARY

Mr. Liu Long is one of the joint company secretaries of the Company, while Mr. Wong Yat Tung, manager of SW Corporate Services Group Limited, is the joint company secretary fulfilling the relevant qualification requirements of the Hong Kong Listing Rules. The company secretary is mainly responsible for facilitating the operation of the Board of Directors, ensuring the effective communication between the members of the Board of Directors and the observation of the policies and procedures of the Board of Directors, and ensuring the compliance with Hong Kong Listing Rules and other regulations by the Company. Any Director can discuss with, seek advice from and obtain information from the company secretary. The main contact in the Company for Mr. Wong Yat Tung is Mr. Liu Long.

During the reporting period, both Mr. Liu Long and Mr. Wong Yat Tung have complied with the requirements of Rule 3.29 of the Hong Kong Listing Rules.

(XI) SECURITIES TRANSACTIONS OF DIRECTORS AND SUPERVISORS

The Company adopts a Code of Conduct for Securities Transactions by Directors and Supervisors no less exacting than the Model Code in the Appendix 10 of the Hong Kong Listing Rules. The Company had inquired all the Directors and Supervisors and confirmed that they had been complying with the aforesaid Code of Conduct of conduct during the period.

(XII) RELATIONSHIP BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

(XIII) SHAREHOLDERS' RIGHTS

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

1. TO HOLD EXTRAORDINARY GENERAL MEETING

At the request of the Shareholders separately or jointly holding 10% or more of the total Shares, the Company shall hold an extraordinary general meeting within two months.

When the Shareholders request to convene an extraordinary general meeting or a Shareholders' class meeting, the following procedures shall be observed: the Shareholders separately or jointly holding 10% or more of the total Shares submit a written proposal to the Board of Directors and explain the meeting topics. The Board of Directors shall reply in written form within ten days after receiving the proposal as for agreeing or disagreeing to convene the extraordinary general meeting or a Shareholders' class meeting.

If the Board of Directors agrees to convene an extraordinary general meeting or a Shareholders' class meeting, a notice of convening the general meeting shall be sent within five days after the resolution made by the Board of Directors. Any change to the original proposal in the notice shall be approved by the relevant Shareholders.

If the Board of Directors does not agree to convene the extraordinary general meeting or a Shareholders' class meeting, or fails to reply within ten days after receiving the proposal, the Shareholders separately or jointly holding 10% or more of the total Shares have the right to propose to the Board of Supervisors to hold the extraordinary general meeting or a Shareholders' class meeting, provided that written request shall be submitted to the Board of Supervisors.

If the Board of Supervisors agrees to convene an extraordinary general meeting or a Shareholders' class meeting, the notice of convening the general meeting shall be sent within five days after the receipt of the request. Any change to the original proposal in the notice shall be approved by the relevant Shareholders.

If the Board of Supervisors fails to provide the notice of holding general meeting or a Shareholders' class meeting within the specified period, it shall be deemed that Board of Supervisors will not convene and preside over the general meeting or a Shareholders' class meeting, the Shareholders separately or jointly holding 10% or more of the total Shares may convene and preside over such meetings at their own discretion.

If the Board of Supervisors or the Shareholders decide to convene the general meeting, they shall notify the Board of Directors in writing and file with the local banking supervisory authorities and other regulatory authorities. The Board of Directors and the secretary to the Board of Directors shall cooperate. The Board of Directors shall provide the register of members as of the record date, and the reasonable cost required for the meeting shall be borne by the Company, which shall be deducted from the payment due to the default Directors.

Corporate Governance Report

2. TO MAKE PROPOSAL TO THE GENERAL MEETING

The Shareholders separately or jointly holding 3% or more of the voting Shares have the right to make proposals to the general meeting.

The Shareholders separately or jointly holding 3% or more of the voting Shares may make temporary proposal and submit in written form to the convener ten days before the holding date of the general meeting or at least two days before the deadline for providing supplementary notice of general meeting as stipulated by Hong Kong Listing Rules (whichever is earlier). The convener shall issue the supplementary notice of the general meeting within two days after receiving the relevant proposal to disclose the contents of the temporary proposal.

3. TO HOLD INTERIM MEETING OF BOARD OF DIRECTORS

At the request of the shareholders separately or jointly holding 10% or more of the total Shares, the chairman shall convene and preside over an interim meeting of Board of Directors within ten days after receiving the proposal.

4. TO MAKE INQUIRIES WITH THE BOARD OF DIRECTORS

The shareholders have the right to obtain the relevant information according to the laws, regulations and Articles of Association. They can obtain the copies of the Articles of Association after paying the relevant costs. They have the right to access and copy the following information after paying reasonable fees: any and all parts of the share register; personal information of the Directors, Supervisors and senior management of the Company; the Company's equity status; the report of total par values, quantity, maximum price and minimum price of each class of shares repurchased by the Company since the last financial year as well as the total expenses the Company paid for this; meeting minutes of general meetings, resolutions of the meetings of Board of Directors, resolutions of the meetings of Board of Supervisors; bond stubs of the Company; the audited financial report, report of Board of Directors, report of Board of Supervisors, and report of auditors for the last fiscal period, the annual report for the last fiscal period that has been filed with the State Administration for Industry and Commerce and other regulatory authorities. For the contact details, please refer to "Company Profile" of this report.

(XIV) IMPLEMENTATION OF INFORMATION DISCLOSURE

The Company always attaches importance to information disclosure, and strictly complies with various regulatory rules of the place where the Company is listed. On the basis of comprehensively implementing various regulatory rules, the Company continuously sorts out and perfects the implementation details of information disclosure management matter from the aspect of system construction and work procedure design.

The Company prohibits its staff from trading or recommending others to trade by making use of inside information. The Company established information disclosure management system, which has identified the department responsible for inside information disclosures, to disclose information in a timely and compliant manner according to the requirements and procedures of the Hong Kong Listing Rules.

During the reporting period, the Company truly, accurately and completely carried out information disclosure work in a timely manner, strictly in accordance with the requirements of relevant information disclosure laws and regulations, and a total of 48 various announcements were released on the websites of the Hong Kong Stock Exchange and the Company, which ensured that all shareholders had equal opportunity to get relevant information of the Company, and enhanced the transparency of the Company's governance.

(XV) INVESTOR RELATIONS MANAGEMENT

The Company consistently makes good management on investor relations and promotes integration of market capitalization and intrinsic value. Aimed to maximize the investors' profit and protect their legitimate rights and interests, the Company forms a corporate cultural concept of serving and respecting investors and procures sound interaction between the Company and the investors, thereby enhancing investors' understanding and recognition on the Company.

During the reporting period, taking the results announcement presentation and issuance of the Offshore Preference shares as an opportunity, the Company strengthened market communication and introduction, and the conducted several management roadshows in Hong Kong, Beijing and Shanghai. They made in-depth exchange with the investors and the analysts, timely answered the questions that investors concerned, and effectively expanded the coverage of the investors.

During the reporting period, the Company formulated and perfected the administrative measures for investor relations in accordance with the regulatory requirements of the listing place and practical experience, managed the investor relations in various forms, and consistently enhanced service level of investors. Through reverse roadshow, website of investor relations, telephone, e-mail and other means, the Company handled the events in connection with investor relations, timely answered and fed back the questions raised by the investors, which effectively procured the further understanding of investors and analysts on the Company's investment value and enhance the Company's influence at capital market.

Aiming to get more attention and recognition from investors, the Company consistently improves the management of webpage of investor relations, timely updates the content on the webpage, earnestly collects investor information, duly traces the reports from analysts, strengthens dynamic monitor of media opinions and actively learns about advice and proposals for the Company's operation and development from capital market.

(XVI) MAJOR CHANGES OF THE ARTICLES OF ASSOCIATION

The Company held the annual general meeting for 2016 on May 31, 2017. The resolution on the amendment to the Articles of Association was considered and passed at the meeting. Considering that the Company made plans for IPO of A shares and listing, relevant provisions of the Articles of Association were amended according to the provisions of relevant laws, regulations and normative documents, and by combining the IPO & listing programs and market practices. For details of the amendments, please refer to the circular dated April 13, 2017 issued by the Company on the websites of the Hong Kong Stock Exchange and the Company. The amendments were approved by CBIRC on October 30, 2017, and will take effect from the date when the A shares issued via this IPO was listed on the Shanghai Stock Exchange.

On December 20, 2017, the Company held the eleventh meeting of the fourth session of the Board of Directors, at which the resolution on the amendment to the Articles of Association was considered and passed. In order to carefully meet relevant requirements of the superior Party committee and supervisory departments on covering the Party construction work into the Articles of Association, relevant provisions of the Articles of Association were amended by referring to relevant contents of some listed banks on amendments to their Articles of Association and by combining the Company's actual circumstances. For details of the amendments, please refer to the circular dated December 20, 2017 issued by the Company on the websites of the Hong Kong Stock Exchange and the Company. The amendment to the Articles of Association still needs the deliberation and approval by the general meeting, and shall be submitted to the CBIRC for approval after the consideration and approval of the general meeting.

(XVII) STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AS SET OUT IN HONG KONG LISTING RULES

The Company agrees to the principles of Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Hong Kong Listing Rules. The Company has been in full compliance with the code provisions set out in the Code during the reporting period.

(XVIII) RISK MANAGEMENT AND INTERNAL CONTROL

In accordance with the requirements of Commercial Banking Law, Basic Rules on Enterprise Internal Control (《企業內部控制基本規範》), Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》) and other laws and regulations, the Company has established standardized corporate governance structure and defined the scope of rights, responsibility assignment and rules of procedures for the general meeting, Board of Directors, Board of Supervisors and senior management. Such organizations as Audit Committee and the Risk and Related Party Transaction Control Committee have been established under the Board of Directors to take charge of the establishment and implementation of sufficient and effective risk management and internal control system and reviewing the sufficient and effective of such systems. The Supervision Committee has been established under the Board of Supervisors to take charge of the supervision on sufficiency and effectiveness of internal control systems of the Board of Directors and Senior Management. The Risk Management and Internal Control Committee has been established under the Senior Management to take charge of the organization and coordination of internal control management as well as establishment and improvement of the concept, system and organizational structure of internal control.

The Company has strictly complied with the relevant requirements of the Hong Kong Listing Rules, established and continuously improved internal control and risk management system by taking account of the practical situation of the Company to reasonably ensure that the operation management complies with the laws and rules, that the assets are safe and that the financial reports and relevant information are true and complete to improve the operating efficiency and effectiveness and to promote the fulfillment of development strategy. The risk management and internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and the Board can only provide reasonable and not absolute assurance against material misstatement or loss.

For more information of risk management and internal control of the Company, please see the section headed “Management Discussion and Analysis – Risk Management” in this report.

During the reporting period, the Company further optimized the internal control management system, and took the special actions of “protected by internal control and safeguarded by compliance” throughout the Bank, to further enhance the internal control management level. Based on the full process management, the Company established the system framework of “three verticals and four horizontals” to improve the whole lifecycle management of the systems, and carry out the total systematic analysis to ensure effectiveness and operability of the systems. The Company deepened the internal control inspection and management mechanism comprising inspection plan and implementation, problem management, rectification tracking and evaluation, and implemented full process control. The Company implemented the construction of “3 in 1” integrated management project in respect of operational risk, internal control and compliance to continuously enhance the effectiveness and pertinence of internal control management. The Company enhanced risk identification and evaluation, kept on proper application of the off-site monitoring system and management system for problems facing regulation violation in internal control, and continuously improved the standardability of operation management activities carried out across the Bank. The Company strengthened the inspection of important businesses, and according to the unified arrangements of CBIRC, it focused on the specific arrangements for the special campaign to prevent and eliminate various risks. The Company optimized the performance appraisal system and improved the incentive and restraint mechanism and talent incentive guarantee mechanism. The Company also carried out education and training of employees, enhanced dynamic management of employees’ behaviors, organized the implementation of supervision on duty performance at key positions, and effectively improved employees’ professional quality and awareness of internal control compliance. The Company continuously strengthened the supervision and inspection system covering organizations at various levels, various products and business flows to facilitate three lines of defense to play a role in parallel and safeguard the compliance operation and steady development of various businesses.

(XIX) EXTERNAL AUDITORS AND THEIR REMUNERATION

For the Company's external auditors and their remuneration, please see "Directors' Report – External auditors and their remuneration" of this report.

The responsibility statement of the Company's external auditors on its financial statements is set out in "Independent Auditor's Report" of this report.

(XX) INTERNAL AUDIT

We have established a dedicated internal audit department and implemented a vertical internal audit management system. The internal audit department independently performs the functions of audit supervision, evaluation and consultation, and is accountable and reports its work to the Board of Directors and the Audit Committee. The team of internal auditing personnel continued to expand. The training courses accepted by the auditing personnel and the relevant budget are sufficient; and we have formulated an institutional system comprising the China Zheshang Bank Basic Internal Audit System (《浙商銀行內部審計基本制度》) and the China Zheshang Bank Internal Audit Standards (《浙商銀行內部審計準則》), as well as various examination methods including on-site and off-site audits.

The Company's audit department is responsible for supervising, inspecting and evaluating the operation management activities, risk profile and effectiveness of internal control across the Bank, timely reporting problems found in audit, advancing independent audit opinions and management suggestions, and promoting the effective rectification of such problems.

During the reporting period, the Company's audit work was focused on the audit of key posts' economic responsibilities, audit of business units' internal control evaluation, and special audit of important business fields. Meanwhile, various working methods were adopted, including audit accountability and surprise audit. The Company also continuously expanded the auditing field, gradually achieved the expansion from the traditional business audit to innovative business audit, highlighted audit emphasis, gave full play to audit supervision functions, further promoted the improvement in its internal control and risk management levels, and promoted sound and steady development of various businesses across the Bank.

Changes in Shares and Information on Shareholders

(I) CHANGES IN ORDINARY SHARES

During the reporting period, changes in the Company's Ordinary Shares were as follows:

Unit: Share, %

	December 31, 2016		Change in the number during the reporting period	December 31, 2017	
	Number	Proportion		Number	Proportion
Domestic Shares	14,164,696,778	78.87	-	14,164,696,778	78.87
H Shares	3,795,000,000	21.13	-	3,795,000,000	21.13
Total Ordinary Shares	17,959,696,778	100.00	-	17,959,696,778	100.00

Note:

1. As of the end of the reporting period, the Company had 28 holders of domestic Shares in total and 135 holders of H Shares in total.

Changes in Shares and Information on Shareholders

(II) SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF ORDINARY SHARES

Unit: Share, %

No.	Name of shareholder	Nature of Shareholder	Change in the shares during the reporting period	Number of shares held at the end of period	Shareholding proportion	Class of Shares	Number of pledged shares
1	HKSCC Nominees Limited ⁽¹⁾ in which: Zhejiang Seaport (Hong Kong) Co., Limited ⁽²⁾	- -	- +864,700,000	3,794,739,900 864,700,000	21.13 4.81	H Shares H Shares	Unknown 490,000,000
2	Zhejiang Provincial Financial Holdings Co., Ltd.	State-owned Legal Person	-	2,655,443,774	14.79	Domestic Shares	-
3	Traveller Automobile Group Co., Ltd.	Domestic Non-State-owned Legal Person	-	1,346,936,645	7.50	Domestic Shares	310,000,000
4	Hengdian Group Holdings Limited	Domestic Non-State-owned Legal Person	-	1,242,724,913	6.92	Domestic Shares	-
5	Zhejiang Provincial Energy Group Co., Ltd.	State-owned Legal Person	-	841,177,752	4.68	Domestic Shares	-
6	Minsheng Life Insurance Company Ltd.	Domestic Non-State-owned Legal Person	-	803,226,036	4.47	Domestic Shares	-
7	Zhejiang Yongli Industry Group Co., Ltd. ⁽³⁾	Domestic Non-State-owned Legal Person	+30,000,000	548,453,371	3.05	Domestic Shares	548,453,371
8	Tong Lian Capital Management Co., Ltd. ⁽⁴⁾	Domestic Non-State-owned Legal Person	+543,710,609	543,710,609	3.03	Domestic Shares	-
9	Zhejiang RIFA Holding Group Co., Ltd.	Domestic Non-State-owned Legal Person	-	518,453,371	2.89	Domestic Shares	463,110,000
10	Zhejiang Hengyi High-tech Material Co., Ltd.	Domestic Non-State-owned Legal Person	-	508,069,283	2.83	Domestic Shares	-

Notes:

- (1) The number of shares held by HKSCC Nominees Limited was the sum of shares of the Company's holders of H shares which were trading in its transaction system.
- (2) During the reporting period, Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd. transferred 864,700,000 H shares of the Company held by it to its related party, Zhejiang Seaport (Hong Kong) Co., Limited (Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd. held the 100% equity interest of Zhejiang Seaport Asset Management Co., Limited and held the 100% equity interest of Zhejiang Seaport (Hong Kong) Co., Limited through Zhejiang Seaport Asset Management Co., Limited). Upon the completion of the transfer, the H shares of the Company held by Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd. and Zhejiang Seaport (Hong Kong) Co., Limited represented 0.75% and 4.81% of the total shares of the Company respectively.
- (3) On April 7, 2017, Xizi Lift Co., Ltd. transferred 30,000,000 domestic shares of the Company to Zhejiang Yongli Industry Group Co., Ltd. and registered with the China Securities Depository and Clearing Corporation Limited. After the transfer, Xizi Lift Co., Ltd. holds 469,708,035 domestic shares of the Company, accounting for 2.62% of the total shares of the Company; Zhejiang Yongli Industry Group Co., Ltd. holds 548,453,371 domestic shares of the Company, accounting for 3.05% of the total shares of the Company.
- (4) On October 17, 2017, China Wanxiang Holding Co., Ltd. transferred 543,710,609 domestic shares of the Company it held to Tonglian Capital Management Co., Ltd., and completed transfer registration with China Securities Depository and Clearing Corporation Limited. After this transfer, Tonglian Capital Management Co., Ltd. held 543,710,609 domestic shares of the Company, accounting for 3.03% of the Company's total shares, and China Wanxiang Holding Co., Ltd. no longer held the Company's shares.

Changes in Shares and Information on Shareholders

(III) INFORMATION ON SUBSTANTIAL SHAREHOLDERS OF ORDINARY SHARES

As at December 31, 2017

Unit: Share, %

No.	Name of Shareholder	Number of shares held (Share)	Separately shareholding ratio	Jointly shareholding ratio	Reasons for being the Substantial Shareholders	Number of pledged shares	Controlled shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners
1	Zhejiang Provincial Financial Holdings Co., Ltd.	2,655,443,774	14.79	14.79	Holding 5% or more of our Bank's shares	-	Zhejiang Province Financial Development Company	Zhejiang Provincial Department of Finance	Nil	Zhejiang Provincial Financial Holdings Co., Ltd.
2	Zhejiang Provincial Energy Group Co., Ltd.	841,177,752	4.68	8.28	Holding 5% or more of our Bank's shares in total with the related parties	-	State-owned Assets Supervision and Administration Commission of the People's Government of Zhejiang Province	State-owned Assets Supervision and Administration Commission of the People's Government of Zhejiang Province	Nil	Zhejiang Provincial Energy Group Co., Ltd.
3	Zhejiang Energy Capital Holdings Co., Ltd. (H share)	431,802,000	2.40			-	Zhejiang Provincial Energy Group Co., Ltd.		Nil	Zhejiang Energy Capital Holdings Co., Ltd.
4	Zhejiang Energy International Co., Ltd. (H share)	213,906,000	1.19			-	Zhejiang Provincial Energy Group Co., Ltd.		Nil	Zhejiang Energy International Co., Ltd.
5	Traveller Automobile Group Co., Ltd.	1,346,936,645	7.50	7.50	Holding 5% or more of our Bank's shares	310,000,000	Shenzhen Xianglong Equity Investment Management Co., Ltd.	Jiang Jinsheng	Nil	Traveller Automobile Group Co., Ltd.
6	Zhejiang Hengyi High-tech Material Co., Ltd.	508,069,283	2.83	6.92	Holding 5% or more of our Bank's shares in total with the related parties	-	Zhejiang Hengyi Petrochemical Co., Ltd.	Qiu Jianlin	Nil	Zhejiang Hengyi High-tech Material Co., Ltd.
7	Zhejiang Hengyi Group Co., Ltd.	494,655,630	2.75			-	Qiu Jianlin		Nil	Zhejiang Hengyi Group Co., Ltd.
8	Zhejiang Hengyi Petrochemical Co., Ltd.	240,000,000	1.34			-	Hengyi Petrochemical Co., Ltd.		Nil	Zhejiang Hengyi Petrochemical Co., Ltd.
9	Hengdian Group Holdings Limited	1,242,724,913	6.92	6.92	Holding 5% or more of our Bank's shares	-	Hengdian Association For Economics Corporation	Hengdian Association For Economics Corporation	Nil	Hengdian Group Holdings Limited

Changes in Shares and Information on Shareholders

No.	Name of Shareholder	Number of shares held (Share)	Separately shareholding ratio	Jointly shareholding ratio	Reasons for being the Substantial Shareholders	Number of pledged shares	Controlled shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners
10	Zhejiang Seaport (Hong Kong) Co., Limited (H share)	864,700,000	4.81	5.57	Holding 5% or more of our Bank's shares in total with the related parties	490,000,000	Zhejiang Seaport Asset Management Co., Limited	State-owned Assets Supervision and Administration Commission of the People's Government of Zhejiang Province	Nil	Zhejiang Seaport (Hong Kong) Co., Limited
11	Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	135,300,000	0.75			-	State-owned Assets Supervision and Administration Commission of the People's Government of Ningbo Municipality		Nil	Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.
12	Guangsha Holding Group Co., Ltd	457,005,988	2.54	5.32	Holding 5% or more of our Bank's shares in total with the related parties	449,405,956	Lou Zhongfu	Lou Zhongfu	Nil	Guangsha Holding Group Co., Ltd
13	Zhejiang Dongyang Third Construction Co., Ltd.	354,480,000	1.97			354,480,000	Guangsha Holding Group Co., Ltd		Nil	Zhejiang Dongyang Third Construction Co., Ltd.
14	Zhejiang Guangsha Co., Ltd.	143,169,642	0.80			143,169,600	Guangsha Holding Group Co., Ltd		Nil	Zhejiang Guangsha Co., Ltd.
15	Zhejiang China Light & Textile Industrial City Group Co., Ltd.	457,816,874	2.55	4.24	Jointly dispatch a Director to our Bank	-	Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd.	Shaoxing City Keqiao Finance Bureau	Nil	Zhejiang China Light & Textile Industrial City Group Co., Ltd.
16	Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd.	302,993,318	1.69			-	Shaoxing City Keqiao District State-owned Assets Investment and Operation Co., Ltd.		Nil	Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd.
17	Jinggong Group Co., Ltd.	454,403,329	2.53	2.53		454,310,000	Shaoxing Jinghui Investment Co., Ltd. (紹興精匯投資有限公司)	Jin Liangshun (金良順)	Nil	Jinggong Group Co., Ltd.

Changes in Shares and Information on Shareholders

No.	Name of Shareholder	Number of shares held (Share)	Separately shareholding ratio	Jointly shareholding ratio	Reasons for being the Substantial Shareholders	Number of pledged shares	Controlled shareholders	De facto controllers	Parties acting in concert	Ultimate beneficial owners
18	Minsheng Life Insurance Company Ltd.	803,226,036	4.47	4.47	Dispatch Chairman of the Board of Supervisors to our Bank	-	China Wanxiang Holding Co., Ltd	Lu Weiding (魯偉鼎)	Nil	Minsheng Life Insurance Company Ltd.
19	Lizi Industrial Group Co., Ltd.	419,354,705	2.33	2.66	Jointly dispatch a Supervisor to our Bank	50,000,000	Li Jingchun (李經春)		Nil	Lizi Industrial Group Co., Ltd.
20	Zhuji Lizi Automobile Transportation Co., Ltd.	57,973,110	0.32			27,000,000	Lizi Industrial Group Co., Ltd.	Li Jingchun (李經春)	Nil	Zhuji Lizi Automobile Transportation Co., Ltd.
21	Nice Group Co., Ltd.	144,034,642	0.80			0.80	-	Zhuang Qichuan (莊啟傳)	Zhuang Qichuan (莊啟傳)	Nil
22	Zhejiang Yongli Industry Group Co., Ltd.	548,453,371	3.05	3.05	Dispatch a Supervisor to our Bank	548,453,371	Shaoxing Keqiaoyongyang Assets Management Co., Ltd	Zhou Yongli (周永利)	Nil	Zhejiang Yongli Industry Group Co., Ltd.

Note: For the definition of Substantial Shareholders, Controlling Shareholders, de facto controllers, related parties, parties acting in concert and ultimate beneficial owners, please see the relevant requirement of the Interim Measures for the Shareholding Management of Commercial Banks (《商業銀行股權管理暫行辦法》) issued by CBIRC. The substantial shareholders of the Bank has reported their related parties, and the Bank will regularly maintain and update the list of related parties to continuously lift the level of connected transactions. The Bank has disclosed the connected transactions for 2017 in this annual report. Due to limitations on space, this annual report does not provide the list of related parties of substantial shareholders.

Changes in Shares and Information on Shareholders

(IV) INTERESTS IN SHARES AND SHORT POSITIONS IN ACCORDANCE WITH THE HONG KONG SECURITIES AND FUTURES ORDINANCE

As of December 31, 2017, in accordance with the register kept by the Company under section 336 of the SFO and so far as the Company is aware, the following persons (excluding the Company's directors, supervisors and chief executive (as defined in the Hong Kong Listing Rules)) had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly held 5% or more of any class of share capital of the Company:

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
Zhejiang Provincial Financial Holdings Co., Ltd.	Beneficial owner	Domestic Shares	Long position	2,655,443,774	14.79	18.75
Zhejiang Province Financial Development Company	Interest of controlled corporation	Domestic Shares	Long position	2,655,443,774	14.79	18.75
Traveller Automobile Group Co., Ltd.	Beneficial owner	Domestic Shares	Long position	1,346,936,645	7.50	9.51
Shenzhen Xianglong Equity Investment Management Co., Ltd	Interest of controlled corporation	Domestic Shares	Long position	1,346,936,645	7.50	9.51
Jiang Jinsheng	Interests of controlled corporation	Domestic Shares	Long position	1,346,936,645	7.50	9.51
Zhejiang Hengyi Group Co., Ltd.	Beneficial owner and Interests of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.92	8.77
Qiu Jianlin	Interest of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.92	8.77
Hengdian Group Holdings Limited.	Beneficial owner	Domestic Shares	Long position	1,242,724,913	6.92	8.77
Hengdian Association For Economics Corporation	Interest of controlled corporation	Domestic Shares	Long position	1,242,724,913	6.92	8.77
Guangsha Holding Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	954,655,630	5.32	6.74
Lou Zhongfu	Interest of controlled corporation	Domestic Shares	Long position	954,655,630	5.32	6.74
Chen Xiabin	Interest of controlled corporation	Domestic Shares	Long position	850,546,358	4.74	6.00
Zhejiang Provincial Energy Group Company Ltd.	Beneficial owner	Domestic Shares	Long position	841,177,752	4.68	5.94
Zhejiang Provincial Energy Group Company Ltd.	Interest of controlled corporation	H Shares	Long position	645,708,000	3.60	17.01
Zhejiang Energy Capital Holdings Co., Ltd. (浙能資本控股有限公司)	Beneficial owner	H Shares	Long position	431,802,000	2.41	11.38
Zhejiang Energy International Co., Ltd. (浙江能源國際有限公司)	Beneficial owner	H Shares	Long position	213,906,000	1.19	5.64
Minsheng Life Insurance Company Ltd.	Beneficial owner	Domestic Shares	Long position	803,226,036	4.47	5.67
China WanXiang Holding Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	803,226,036	4.47	5.67
Lu Weiding	Interest of controlled corporation	Domestic Shares	Long position	803,226,036	4.47	5.67
Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	760,810,192	4.24	5.37

Changes in Shares and Information on Shareholders

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
Shaoxing City Kejiao District State-owned Assets Investment and Operation Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	760,810,192	4.24	5.37
Zhejiang Hengyi Petrochemical Co., Ltd.	Beneficial owner and Interest of controlled corporation	Domestic Shares	Long position	748,069,283	4.17	5.28
Hengyi Petrochemical Co., Ltd.	Interest of controlled corporation	Domestic Shares	Long position	748,069,283	4.17	5.28
Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	Beneficial owner and Interest of controlled corporation	H Shares	Long position	1,000,000,000	5.57	26.35
Central Huijin Investment Ltd.	Interest of controlled corporation	H Shares	Long position	685,000,000	3.81	18.05
Zhejiang Seaport (Hong Kong) Co., Limited	Beneficial owner	H Shares	Long position	864,700,000	4.81	22.79
Zhejiang Seaport Asset Management Co., Limited	Interest of controlled corporation	H Shares	Long position	864,700,000	4.81	22.79
Yancoal International (Holding) Company Limited	Beneficial owner	H Shares	Long position	513,897,000	2.86	13.54
Yanzhou Coal Mining Company Limited	Interest of controlled corporation	H Shares	Long position	513,897,000	2.86	13.54
Yankuang Group Company Limited	Interest of controlled corporation	H Shares	Long position	513,897,000	2.86	13.54
Next Hero Holdings Limited	Party with security interest over the shares	H Shares	Long position	490,000,000	2.73	12.91
ICBC International Investment Management Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.73	12.91
ICBC International Holdings Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.73	12.91
Industrial and Commercial Bank of China Limited	Interest of controlled corporation	H Shares	Long position	490,000,000	2.73	12.91
Shaoxing Lingyan Equity Investment Fund Partnerships (Limited Partnership)	Beneficial owner	H Shares	Long position	250,000,000	1.39	6.59
Zhejiang Lingyan Capital Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.39	6.59
Shanghai Run Kuan Investment Management Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.39	6.59
Liu Yaozhong	Interest of controlled corporation	H Shares	Long position	250,000,000	1.39	6.59
Great Wall Securities Co., Ltd.	Interest of controlled corporation	H Shares	Long position	250,000,000	1.39	6.59
Jiaxing Credit Lingxin Investment Partnership Enterprise (Limited Partnership) (嘉興信業領信投資合夥企業(有限合夥))	Interest of controlled corporation	H Shares	Long position	250,000,000	1.39	6.59
Zhuji Ruitong Machinery Technology Co., Ltd. (諸暨通瑞機械科技有限公司)	Beneficial owner	H Shares	Long position	208,202,000	1.16	5.49
Zhuji Yutian Corporate Management and Consultation Co., Ltd. (諸暨裕天企業管理諮詢有限公司)	Beneficial owner	H Shares	Long position	208,202,000	1.16	5.49
Hong Kong Bao Da Financial Holdings Limited	Beneficial owner	H Shares	Long position	207,760,000	1.16	5.47
Bao Da Financial International Limited	Interest of controlled corporation	H Shares	Long position	207,760,000	1.16	5.47

Changes in Shares and Information on Shareholders

Name of Shareholder	Nature of interests and capacity	Class	Long/short position	Number of Shares (Shares)	Approximate percentage of interest (%)	Approximate percentage of the relevant class of Shares (%)
Great Sphere Developments Limited	Interest of controlled corporation	H Shares	Long position	207,760,000	1.16	5.47
China Goldjoy Group Limited	Interest of controlled corporation	H Shares	Long position	207,760,000	1.16	5.47
Tinmark Development Limited	Interest of controlled corporation	H Shares	Long position	207,760,000	1.16	5.47
Yao Jianhui	Interest of controlled corporation	H Shares	Long position	207,760,000	1.16	5.47
Hong Kong Xinhui Investment Co., Ltd.	Beneficial owner	H Shares	Long position	199,037,000	1.11	5.24
Xinhui Zhongbao Co., Ltd.	Interest of controlled corporation	H Shares	Long position	199,037,000	1.11	5.24
Zhejiang Xinhui Group Co., Ltd.	Interest of controlled corporation	H Shares	Long position	199,037,000	1.11	5.24
Huang Wei	Interest of controlled corporation	H Shares	Long position	199,037,000	1.11	5.24
China Jianyin Investment Ltd.	Interest of controlled corporation	H Shares	Long position	195,000,000	1.09	5.14
CITIC Securities Company Limited	Interest of controlled corporation	H Shares	Long position	838,287,382 ^(note)	4.67	22.09
	Interest of controlled corporation	H Shares	Short position	837,417,187 ^(note)	4.66	22.07
CITIC Securities International Company Limited	Interest of controlled corporation	H Shares	Long position	838,287,382 ^(note)	4.67	22.09
	Interest of controlled corporation	H Shares	Short position	837,417,187 ^(note)	4.66	22.07
CLSA B.V.	Interest of controlled corporation	H Shares	Long position	838,287,382 ^(note)	4.67	22.09
	Interest of controlled corporation	H Shares	Short position	837,417,187 ^(note)	4.66	22.07
CITIC CLSA Global Markets Holdings Limited	Interest of controlled corporation	H Shares	Long position	838,287,382 ^(note)	4.67	22.09
	Interest of controlled corporation	H Shares	Short position	837,417,187 ^(note)	4.66	22.07
CSI Capital Management Limited	Beneficial owner	H Shares	Long position	838,287,382 ^(note)	4.67	22.09
	Beneficial owner	H Shares	Short position	444,766,085 ^(note)	2.48	11.72
CSI Financial Products Limited	Beneficial owner	H Shares	Short position	392,651,102 ^(note)	2.19	10.35
Goncius I Limited	Beneficial owner	H Shares	Long position	792,843,890 ^(note)	4.41	20.89
	Beneficial owner	H Shares	Short position	792,843,890 ^(note)	4.41	20.89

Note: This part involves derivative instrument. For the detail of it, please refers to the relevant information about disclosure of interests, which was published on the website of the Stock Exchange.

Save as disclosed above, the Company was unaware of any other person (excluding the Company's Directors, Supervisors and chief executive (as defined in the Hong Kong Listing Rules)) who had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or any interest or short position as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO on December 31, 2017.

(V) INFORMATION ON THE COMPANY'S LARGEST SHAREHOLDER OF ORDINARY SHARES

As of the end of the reporting period, Zhejiang Provincial Financial Holdings Co., Ltd. held 14.79% of the shares of the Company and was the Company's largest Shareholder.

Zhejiang Provincial Financial Holdings Co., Ltd. was established in September 2012 with a registered capital of RMB12.0 billion, and is a financial investment management platform established by Zhejiang Provincial Government. The company is a state-owned enterprise directly subordinated to the provincial government, which is supervised and managed by Zhejiang Provincial Department of Finance with the authorization from Zhejiang Provincial Government. The company is mainly engaged in financial investment, government equity investment fund management and asset management business.

Changes in Shares and Information on Shareholders

(VI) ISSUE AND LISTING OF SECURITIES

During the reporting period, the Bank issued no Ordinary Shares. For the issuance of Offshore Preference Shares, please refer to the section of “Information About Offshore Preference Shares”.

(VII) ISSUE OF BONDS

On September 11, 2013, according to the approvals in the documents issued by CBIRC (Yin Jian Fu [2012] No. 783) and People’s Bank of China (Yin Shi Chang Zhun Yu Zi [2013] No. 46), The Company publicly issued China Zheshang Bank Co., Ltd.’s 2013 financial bonds of RMB1.5 billion in the national interbank bond market. This tranche of bonds has a term of 5 years and bear interest at fixed interest rate. Relevant proceeds will all be used by the Company to extend small and micro corporate loans in accordance with applicable laws and the approvals from regulatory authorities. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of subordinated bonds was AAA.

On March 10, 2014, according to the approvals in the documents issued by CBIRC (Yin Jian Fu [2012] No. 783) and People’s Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2013] No. 46), the Company publicly issued China Zheshang Bank Co., Ltd.’s 2014 financial bonds of RMB4.5 billion in the national interbank bond market. This tranche of bonds has a term of 5 years and bear interest at fixed interest rate. Relevant proceeds will all be used by the Company to extend small and micro corporate loans in accordance with applicable laws and the approvals from regulatory authorities. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of financial bonds was AAA.

On December 24, 2015, according to the approvals in the documents issued by CBIRC (Yin Jian Fu [2015] No. 465) and People’s Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2015] No. 307), the Company publicly issued China Zheshang Bank Co., Ltd.’s 2015 financial bonds of RMB5.0 billion in the national interbank bond market. This tranche of bonds has a term of 5 years and bear interest at fixed interest rate. Relevant proceeds will all be used by the Company to extend small and micro corporate loans in accordance with applicable laws and the approvals from regulatory authorities. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of financial bonds was AAA.

On February 24, 2016, according to the approvals in the documents issued by CBIRC (Yin Jian Fu [2015] No. 465) and People’s Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2015] No. 307), the Company publicly issued China Zheshang Bank Co., Ltd.’s 2016 financial bonds of RMB10 billion in the national interbank bond market. This tranche of bonds has a term of 5 years and bear interest at fixed interest rate. Raised proceeds will all be used to extend small and micro corporate loans in accordance with applicable laws and the approvals from regulatory authorities. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of financial bonds was AAA.

On September 14, 2016, according to the approvals in the documents issued by CBIRC (Yin Jian Fu [2016] No. 102) and People’s Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2016] No. 125), the Company publicly issued China Zheshang Bank Co., Ltd.’s 2016 Tier 2 capital bonds of RMB10 billion in the national interbank bond market. This tranche of bonds has a term of 10 years and bear interest at fixed interest rate, and the Company may exercise the right of redemption with pre-conditions upon the expiry of the first five-year period. Raised proceeds will all be used by the Company to replenish the tier-two capital. The Company was awarded an entity credit rating of AAA by China Chengxin International Credit Rating Co., Ltd. with a stable rating outlook, and the credit rating for this tranche of tier 2 capital bonds was AA+.

Changes in Shares and Information on Shareholders

(VIII) INFORMATION ABOUT OFFSHORE PREFERENCE SHARES

1. ISSUANCE AND LISTING OF OFFSHORE PREFERENCE SHARES

In order to improve the Bank's capital structure so as to supply the capital support in respect of the effective implementation of strategies, to further lift the comprehensive competitive strengths of the Bank and to enhance the Bank's ability to continue as a going concern, pursuant to the approval of the CBIRC (Yin Jian Fu [2017] No. 45) and the approval of the CSRC (Zheng Jian Xu Ke [2017] No. 360) the Bank made a non-public issuance of US\$2.175 billion Offshore Preference Shares in the offshore market on March 29, 2017. The Offshore Preference Shares had a par value of RMB100 and raised US\$20 per share, all of which were subscribed in U.S. dollars. Such Offshore Preference Shares were listed on the Hong Kong Stock Exchange on March 30, 2017 (Stock Code of Preference Shares: 4610).

Based on the CNY Central Parity Rate published by the China Foreign Exchange Trading Centre on March 29, 2017, the gross proceeds from the offering of the Offshore Preference Shares were approximately RMB14.989 billion. Subject to applicable laws and regulations and the approvals by the relevant regulatory authorities such as the CBIRC and the CSRC, the capital raised from the Offshore Preference Shares issuance were used to replenish the Bank's Additional Tier 1 Capital, increase the Tier 1 Capital Adequacy Ratio of the Bank and optimize the capital structure.

Stock Code of Offshore Preference Shares	Issuing Date	Issuing Price (US\$/share)	Initial Annual Dividend Rate (%)	Issue Volume (Share)	Total Issue Amount (US\$)	Listing Date	Approved Number of Shares for Listing and Dealing (Share)
4610	2017/3/29	20	5.45	108,750,000	2,175,000,000	2017/3/30	108,750,000

2. RELEVANT ARTICLES WITH RESPECT TO RIGHTS AND INTERESTS OF THE OFFSHORE PREFERENCE SHARES HAVE BEEN INCLUDED TO THE COMPANY'S ARTICLES OF ASSOCIATION, WHICH CAN BE FOUND ON THE WEBSITES OF THE HONG KONG STOCK EXCHANGE AND THE COMPANY.

Changes in Shares and Information on Shareholders

3. NUMBER OF SHAREHOLDERS AND SHAREHOLDING OF OFFSHORE PREFERENCE SHARES

As of the end of the reporting period, the total number of shareholders (or nominees) of the Company for the Offshore Preference Shares was one, being The Bank of New York Depository (Nominees) Limited as the nominee.

Name of Shareholders	Nature of Shareholders	Share Class	Increase/Decrease during the Reporting Period (Share)	Shareholders Ratio (%)	Total Number of Shares Held (Share)	Number of Shares Subject to Selling Restrictions (Share)	Number of Shares Pledged or Frozen (Share)
The Bank of New York Depository (Nominees) Limited	Foreign legal Person	Offshore Preference Shares	108,750,000	100	108,750,000	-	unknown

Notes:

- (1) Particulars of shareholding of the Offshore Preference Shares shareholders were calculated according to the information specified in the register of Offshore Preference Shares shareholders of the Bank.
- (2) As the issuance was an offshore non-public offering, the register of Offshore Preference Shares shareholders set out the information of the Offshore Preference Shares held by The Bank of New York Depository (Nominees) Limited as the nominee of the places in the clearing systems of Euroclear Bank S.A./N.V. and Clearstream Banking S.A. as of the end of the reporting period.

4. DISTRIBUTION OF PROFITS FROM THE OFFSHORE PREFERENCE SHARES

The Bank paid the dividend to the holders of the Offshore Preference Shares in cash once a year. The dividend not paid by the Bank in full to the holders of the Offshore Preference Shares will not be accumulated to the next interest-bearing year. After being distributed with the dividend according to the agreed dividend rate, the holders of the Offshore Preference Shares shall no longer participate in distribution of the remaining profits with the holders of the ordinary shares.

During the reporting period, the issued Offshore Preference Shares were not due for dividend distribution and there was no dividend payment in respect of the Offshore Preference Shares.

According to the resolution and authorization of the general meeting, the Board meeting dated December 20, 2017 deliberated and adopted the Proposal for Distributing Dividends of Offshore Preference Shares, approving the Bank to distribute the dividends of Offshore Preference Shares for the first time on March 29, 2018. Pursuant to relevant laws and regulations of China, while distributing the dividends of offshore preference shares to the offshore non-resident corporate shareholders, the Bank shall withhold and pay on behalf the corporate income tax according to the tax rate of 10%. According to relevant articles and conditions of the Bank with respect to Offshore Preference shares, relevant taxes and dues shall be paid by the Bank. The dividends of Offshore Preference Shares distributed this time totaled to US\$131,708,333.33, including: US\$118,537,500 actually paid to shareholders of the offshore preference shares according to the annual interest rate of 5.45%; and the corporate income tax of US\$13,170,833.33 withheld and paid on behalf according to the tax rate of 10% pursuant to relevant legal regulations.

For the implementation plan for initial distribution of the dividends of Offshore Preference Shares, please refer to the announcement published on the websites of the Hong Kong Stock Exchange and the Company.



Changes in Shares and Information on Shareholders

5. REDEMPTION OR CONVERSION OF OFFSHORE PREFERENCE SHARES

During the reporting period, there was no redemption or conversion of the Offshore Preference Shares issued by the Bank.

6. RESTORATION OF VOTING RIGHTS OF OFFSHORE PREFERENCE SHARES

During the reporting period, there was no restoration of voting rights of the Offshore Preference Shares issued by the Bank.

7. ACCOUNTING POLICIES ADOPTED FOR OFFSHORE PREFERENCE SHARES AND THE REASONS THEREOF

In accordance with the Accounting Standards for Enterprises No.22 – Recognition and Measurement of Financial Instruments, the Accounting Standards for Enterprises No. 37 – Presentation of Financial Instruments and the Rules on Differences between Financial Liabilities and Equity Instruments and Relevant Accounting Treatment published by the Ministry of Finance, as well as IAS 39-Financial Instruments: Recognition and Measurement and IAS 32-Financial Instruments: Disclosures and Presentation formulated by the International Accounting Standards Board, the terms of the issued and existing Offshore Preference Shares meet the requirements of being accounted as equity instruments, so they can be calculated as the equity instruments.

Directors, Supervisors, Senior Management, Employees and Institutions

(I) DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. BASIC INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Gender	Date of birth	Position	Date of joining the Company	Term of office	Number of Shares held at the beginning of period (Shares)	Number of Shares held at the end of period (Shares)	Remuneration before taxes from the Company during the reporting period (RMB in ten thousand)
Shen Renkang (沈仁康)	Male	January 1963	Chairman, Executive Director	July 2014	February 2015 to now	0	0	95.00
Liu Xiaochun ⁽¹⁾ (劉曉春)	Male	March 1959	Vice Chairman, Executive Director, President	July 2014	February 2015 to April 2018	0	0	590.94
Wang Mingde ⁽²⁾ (王明德)	Male	November 1942	Vice Chairman, Non-executive Director	August 2010	February 2015 to now	0	0	-
Zhang Luyun (張魯芸)	Female	December 1961	Executive Director	January 2015	February 2015 to now	0	0	89.55
Xu Renyan ⁽³⁾ (徐仁艷)	Male	August 1965	Executive Director, Vice President	May 2004	February 2015 to now	0	0	496.93
Wang Yibing ⁽⁴⁾ (江一兵)	Female	April 1966	Non-executive Director	February 2015	February 2015 to now	0	0	-
Shen Xiaojun ⁽⁵⁾ (沈小軍)	Female	July 1959	Non-executive Director	March 2009	February 2015 to now	0	0	-
Gao Qinhong ⁽⁶⁾ (高勤紅)	Female	July 1963	Non-executive Director	May 2004	February 2015 to now	0	0	-
Hu Tiangao ⁽⁷⁾ (胡天高)	Male	September 1965	Non-executive Director	May 2004	February 2015 to now	0	0	-
Lou Ting ⁽⁸⁾ (樓婷)	Female	October 1976	Non-executive Director	February 2015	February 2015 to now	0	0	-
Zhu Weiming ⁽⁹⁾ (朱瑋明)	Male	March 1969	Non-executive Director	October 2016	October 2016 to now	0	0	-
Jin Xuejun (金雪軍)	Male	June 1958	Independent Non-executive Director	August 2010	February 2015 to now	0	0	30.00
Tong Benli (童本立)	Male	August 1950	Independent Non-executive Director	February 2015	February 2015 to now	0	0	30.00
Yuan Fang (袁放)	Male	March 1957	Independent Non-executive Director	February 2015	February 2015 to now	0	0	30.00
Dai Deming (戴德明)	Male	April 1962	Independent Non-executive Director	February 2015	February 2015 to now	0	0	30.00
Liu Pak Wai (廖柏偉)	Male	January 1948	Independent Non-executive Director	February 2015	February 2015 to now	0	0	30.00
Zheng Jindu (鄭金都)	Male	July 1964	Independent Non-executive Director	December 2015	December 2015 to now	0	0	30.00
Yu Jianqiang ⁽¹⁰⁾ (于建強)	Male	March 1962	Shareholder Representative Supervisor, Chairman of the Board of Supervisors	February 2015	February 2015 to now	0	0	418.15

Directors, Supervisors, Senior Management, Employees and Institutions

Name	Gender	Date of birth	Position	Date of joining the Company	Term of office	Number of Shares held at the beginning of period (Shares)	Number of Shares held at the end of period (Shares)	Remuneration before taxes from the Company during the reporting period (RMB in ten thousand)
Zheng Jianming ⁽¹¹⁾ (鄭建明)	Male	January 1973	Employee Representative Supervisor, Vice Chairman of Board of Supervisors	June 2013	February 2015 to now	0	0	-
Tao Xuegen ⁽¹²⁾ (陶學根)	Male	October 1953	Shareholder Representative Supervisor	June 2005	February 2015 to now	0	0	-
Zhou Yang ⁽¹³⁾ (周洋)	Male	October 1988	Shareholder Representative Supervisor	February 2015	February 2015 to now	0	0	-
Wang Chengliang ⁽¹¹⁾ (王成良)	Male	June 1963	Employee Representative Supervisor	January 2005	May, 2017 to now	0	0	-
Ge Lixin ⁽¹¹⁾ (葛立新)	Male	October 1966	Employee Representative Supervisor	July 2004	February 2015 to now	0	0	-
Zhang Rulong ⁽¹¹⁾ (張汝龍)	Male	January 1966	Employee Representative Supervisor	July 2004	February 2015 to now	0	0	-
Jiang Zhihua (蔣志華)	Male	August 1943	External Supervisor	May 2004	February 2015 to now	0	0	30.00
Yuan Xiaoqiang (袁小強)	Male	March 1963	External Supervisor	February 2015	February 2015 to now	0	0	30.00
Huang Zuhui (黃祖輝)	Male	June 1952	External Supervisor	February 2015	February 2015 to now	0	0	30.00
Wang Jun (王軍)	Male	April 1970	External Supervisor	February 2015	February 2015 to now	0	0	30.00
Cheng Huifang (程惠芳)	Female	September 1953	External Supervisor	June 2016	June 2016 to now	0	0	30.00
He Xudong (何旭東)	Male	November 1977	Former Shareholder Representative Supervisor	October 2016	October 2016 to October 2017	0	0	-
Dong Zhoufeng (董舟峰)	Male	March 1957	Former Employee Representative Supervisor	March 2004	February 2015 to May 2017	0	0	-
Ye Jianqing ⁽¹⁴⁾ (葉建清)	Male	March 1963	Vice President	January 2004	February 2015 to March 2018	0	0	498.75
Zhang Changgong (張長弓)	Male	October 1965	Vice President	January 2015	February 2015 to now	0	0	455.92
Xu Manxuan (徐蔓萱)	Male	October 1963	Vice President President Assistant	September 2002	January 2016 to now February 2015 to January 2016	0	0	479.00
Wu Jianwei (吳建偉)	Male	February 1971	Vice President President Assistant	March 2015	April 2016 to now March 2015 to April 2016	0	0	432.49
Liu Long (劉龍)	Male	September 1965	Vice President, Secretary of the Board	September 2014	April 2016 to now February 2015 to April 2016	0	0	440.34

Directors, Supervisors, Senior Management, Employees and Institutions

Name	Gender	Date of birth	Position	Date of joining the Company	Term of office	Number of Shares held at the beginning of period (Shares)	Number of Shares held at the end of period (Shares)	Remuneration before taxes from the Company during the reporting period (RMB in ten thousand)
Jiang Yulin (姜雨林)	Male	June 1968	Vice President	April 2016	April 2016 to now	0	0	331.44
Zhang Rongsen ⁽¹⁵⁾ (張榮森)	Male	October 1968	Vice President	September 2017	October 2017 to now	0	0	30.00
Feng Jiansong (馮劍松)	Male	September 1962	Former President Assistant	December 2008	February 2015 to May 2017	0	0	350.01

Notes:

- (1) Due to the change of his work commitments, Mr. Liu Xiaochun resigned as the executive director, deputy chairman and president of the Bank, with effect from April 18, 2018. For details, refer to the announcement published by the Bank on the websites of the Hong Kong Stock Exchange and the Bank.
- (2) Wang Mingde, the Director, was nominated by the shareholder, being Traveller Automobile Group;
- (3) The Board of Directors of the Bank passed a resolution on April 18, 2018 to appoint Mr. Xu Renyan as the president of the Bank. The appointment qualification is subject to approval by the China Banking and Insurance Regulatory Commission. For details, refer to the announcement published by the Bank on the websites of the Hong Kong Stock Exchange and the Bank.
- (4) Wang Yibing, the Director, was nominated by the shareholder, being Zhejiang Provincial Financial Holdings Co., Ltd.;
- (5) Shen Xiaojun, the Director, was jointly nominated by the shareholders, being Zhejiang China Light & Textile Industrial City Group Co., Ltd., Keqiao District Shaoxing China Light & Textile City Market Development & Operation Group Co., Ltd. (紹興市柯橋區中國輕紡城市市場開發經營集團有限公司) and Jinggong Group Co., Ltd.;
- (6) Gao Qinhong, the Director, was nominated by the shareholders, being Zhejiang Hengyi Group Co., Ltd., Zhejiang Hengyi Petrochemical Co., Ltd. and Zhejiang Hengyi High-tech Material Co., Ltd.;
- (7) Hu Tiangao, the Director, was nominated by the shareholder, being Hengdian Group Holdings Limited;
- (8) Lou Ting, the Director, was nominated by the shareholders, being Guangsha Holding Group Co., Ltd., Zhejiang Dongyang Third Construction Co., Ltd. and Zhejiang Guangsha Co., Ltd.;
- (9) Zhu Weiming, the Director, was nominated by the shareholder, being Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.;
- (10) Yu Jianqiang, the chairman of the Board of Supervisors, was nominated by the shareholder, being Minsheng Life Insurance Company Ltd.;
- (11) The Company's employee representative Supervisors receive their remuneration with respect to their posts as employees and do not receive any remuneration as employee representative Supervisors;
- (12) Tao Xuegen, the Supervisor, was jointly nominated by the shareholders, being Lizi Industrial Group Co., Ltd., Zhuji Lizi Automobile Transportation Co., Ltd. and Nice Group Co., Ltd.;
- (13) Zhou Yang, the Supervisor, was nominated by the shareholder, being Zhejiang Yongli Industry Group Co., Ltd.;
- (14) On March 15, 2018, Ye Jianqing resigned as the deputy president of the Bank due to the change in work commitments;
- (15) The qualification of Zhang Rongsen for appointment as a senior management member was approved by the CBIRC in April 2018.



Directors, Supervisors, Senior Management, Employees and Institutions

2. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

Directors

During the reporting period, the Directors of the Company had no change.

Supervisors

On May 27, 2017, Mr. Dong Zhoufeng has reached retirement age and resigned the position as an employee supervisor of the Company. On the same day, the employee representatives' meeting of the Company elected Mr. Wang Chengliang as an employee supervisor of the Company.

On October 12, 2017, Mr. He Xudong resigned from his position as a shareholder representative supervisor due to other work commitments and no longer served as the shareholder representative supervisor of the Company.

Senior Management

On May 26, 2017, Mr. Feng Jiansong resigned from his position as the president assistant due to other work commitments and no longer served as the president assistant of the Company.

On October 12, 2017, the 2017 second interim meeting of the fourth session of the Board of Directors of the Company approved the appointment of Mr. Zhang Rongsen as the vice President of the Company. His qualification of senior management was approved by the CBIRC in April 2018.

Directors, Supervisors, Senior Management, Employees and Institutions

3. POSTS HELD BY DIRECTORS AND SUPERVISORS IN OUR SHAREHOLDERS

Name	Employing enterprise	Post	Term of Office
Wang Yibing	Zhejiang Provincial Financial Holdings Co., Ltd.	General manager of investment management department	Since 2017
Wang Mingde	Traveller Automobile Group Co., Ltd.	Vice president	Since 2010
Shen Xiaojun	Zhejiang China Light & Textile Industrial City Group Co., Ltd.	Chairman of the labor union	Since 2014
Gao Qinrong	Zhejiang Hengyi Group Co., Ltd.	Director and Chief financial advisor	Since 2014
Hu Tiangao	Hengdian Group Holdings Limited	Director and vice president	Since 1995
Lou Ting	Guangsha Holding Group Co., Ltd.	Chief executive officer	Since 2013
Zhu Weiming	Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.	Director of the financial affairs department	Since 2016
Tao Xuegen	Lizi Group Co., Ltd.	Deputy secretary of CPC committee	Since 2004
Zhou Yang	Zhejiang Yongli Industry Group Co., Ltd.	Secretary of CPC committee, Vice chairman of the board	Since 2014

4. PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND INFORMATION OF THEIR CONCURRENT POST

Directors

Shen Renkang (沈仁康)

Mr. Shen Renkang (沈仁康) is currently the secretary of the Communist Party of China committee, chairman of the Board and executive director of the Company. Post-graduate. Mr. Shen had successively held the posts of member of the CPC standing committee, vice county chief, vice county secretary of CPC committee, acting county chief and county chief of Qingtian County, Zhejiang; he served as the vice mayor of Lishui City, Zhejiang and concurrently held the position of party committee secretary of management committee of Lishui Economic Development Zone and member of the standing committee of Lishui City, Zhejiang; he served as the vice secretary of the municipal CPC committee of Lishui City, Zhejiang, during which period he concurrently held the position of politics and law committee secretary in the municipal CPC committee of Lishui City; and he also served as deputy secretary, acting mayor and mayor of Quzhou City, Zhejiang Province.



Directors, Supervisors, Senior Management, Employees and Institutions

Liu Xiaochun (劉曉春)

Mr. Liu Xiaochun (劉曉春) was the deputy secretary of CPC committee, vice chairman of the Board, executive director and president of the Company during the reporting period. Undergraduate and senior economist. Mr. Liu assumed the position of vice Director of editorial department of the financial research institute's Zhejiang Rural Financial Research (《浙江農村金融研究》), section chief of credit section of international business department, manager of credit department of international business department, vice general manager of business department, general manager of international business department of Zhejiang provincial branch of the Agricultural Bank of China; vice general manager of international business department of the head office of the Agricultural Bank of China; CPC party committee member and vice president of Zhejiang provincial branch of the Agricultural Bank of China; and vice general manager and general manager of Hong Kong branch of the Agricultural Bank of China.

Mr. Liu Xiaochun resigned from his positions as an executive director, the vice chairman and the president of the Company and a member of the strategic committee and inclusive finance development committee of the Board due to adjust of his work arrangement with effect from April 18, 2018.

Wang Mingde (王明德)

Mr. Wang Mingde (王明德) is currently the vice chairman and a non-executive Director of the Company. College undergraduate and senior economist. Mr. Wang had held the posts of section chief and vice president of Wenzhou branch, Bank of China; president of Bank of China Osaka branch; vice president of Tokyo branch of Bank of China; vice president of Zhejiang Provincial branch of Bank of China; vice president of Tokyo branching Bank of China (reengagement); and senior expert (general manager level) of IT blueprint office of head office of Bank of China. Mr. Wang is currently vice president of Traveller Automobile Group Co., Ltd..

Zhang Luyun (張魯芸)

Ms. Zhang Luyun (張魯芸) is currently the deputy secretary of CPC committee, executive Director and director of labor union working committee at the head office of the Company. EMBA, senior economist and post-secondary education assistant researcher. Ms. Zhang had held the position of vice director general of information division and chief of press section of Hangzhou Municipal Office; a member of the party committee and vice president of Hangzhou Radio & TV University; secretary for confidential information at division chief level of organization department of Zhejiang provincial party committee; a member of the party committee, vice general manager and director of Zhejiang Communications Investment Group Co., Ltd. (浙江省交通投資集團有限公司); and non-executive director of Zhejiang Expressway Co., Ltd. (浙江滬杭甬高速公路股份有限公司).

Xu Renyan (徐仁艷)

Mr. Xu Renyan (徐仁艷) was a CPC party committee member, executive Director and vice president of the Company during the reporting period, chairman of the board and executive director of Zheyin Financial Leasing. Postgraduate, senior accountant and certified tax agent. Mr. Xu had successively held positions of the vice section chief and the section chief of financial section, accounting department, Zhejiang provincial branch of PBOC; vice director of accounting department, Zhejiang provincial branch of PBOC; vice director and director of accounting and financial department, Hangzhou central branch, PBOC; and a member of the party committee and vice president of Hangzhou central branch, PBOC.

Mr. Xu Renyan was appointed as the president of the Bank on April 18, 2018, which is subject to the ratification of his eligibility as the president by CBIRC.

Directors, Supervisors, Senior Management, Employees and Institutions

Wang Yibing (汪一兵)

Ms. Wang Yibing (汪一兵) is currently a non-executive Director of the Company. Undergraduate and senior accountant. Ms. Wang had successively held the posts of manager of project department, assistant to general manager and vice general manager of Zhejiang Province Xingcai Real Estate Development Company (浙江省興財房地產發展公司); general manager of financial management department of Zhejiang Provincial Financial Holdings Co., Ltd. (浙江省金融控股有限公司), the director of Zhejiang China Commodities City Group Company Limited (浙江中國小商品城集團股份有限公司), Zhejiang Material Industrial Zhongda Yuantong Group Co., Ltd. (浙江物產中大元通集團股份有限公司) and Yongan Futures Co., Ltd. (永安期貨股份有限公司). Ms. Wang now holds posts of supervisor, general manager of investment management department of Zhejiang Provincial Financial Holdings Co., Ltd. (浙江省金融控股有限公司); manager of first investment department of Zhejiang Province Financial Development Company (浙江省財務開發公司); director of Caitong Securities Co., Ltd. (財通證券股份有限公司), Zhejiang Provincial Innovation and Development Investment Co. Ltd. (浙江省創新發展投資有限公司), Zhejiang Venture Capital Fund of Funds Management Co. Ltd. (浙江省創業風險投資引導基金管理有限公司), Zhejiang Jinkong Investment Co., Ltd. (浙江金控投資有限公司) and Zhejiang Jinhai Investment Co., Ltd. (浙江省金海投資有限公司), respectively.

Shen Xiaojun (沈小軍)

Ms. Shen Xiaojun (沈小軍) is currently a non-executive Director of the Company. Undergraduate and senior economist. Ms. Shen used to work as secretary of leading party members' group and bureau director of Shaoxing County Statistical Bureau; she used to work as the secretary of leading party members' group and the bureau director of Shaoxing County Economic and Trade Bureau; she served as chairman of Zhejiang China Light & Textile Industrial City Group Co., Ltd. (浙江中國輕紡城集團股份有限公司), Shaoxing County China Light & Textile Industry City Market Development and Management Co., Ltd. (紹興縣中國輕紡城市場開發經營有限公司); and vice chairman of Kuaijishan Shaoxing Rice Wine Co., Ltd. (會稽山紹興酒股份有限公司). She now serves as the chairman of the labor union of Zhejiang China Light & Textile Industrial City Group Co., Ltd..

Gao Qinhong (高勤紅)

Ms. Gao Qinhong (高勤紅) is currently a non-executive Director of the Company. Postgraduate and senior economist. Ms. Gao worked as accountant and credit manager of Xiaoshan branch of Industrial and Commercial Bank of China; she served as accountant and credit manager of Zhejiang provincial branch of Industrial and Commercial Bank of China; she served as section chief of credit and loan section and division-level inspector of Hangzhou branch and vice president of Wulin sub-branch, Shanghai Pudong Development Bank Co., Ltd.; she had served successively as vice general manager and chief financial officer and director of Zhejiang Hengyi Group Co., Ltd. (浙江恒逸集團有限公司); she now works as chief financial advisor and director of Zhejiang Hengyi Group Co., Ltd..

Hu Tiangao (胡天高)

Mr. Hu Tiangao (胡天高) is currently a non-executive Director of the Company. EMBA and senior economist. Mr. Hu served as vice president of Dongyang sub-branch, Bank of China; he is currently a director and vice president of Hengdian Group Holdings Limited (橫店集團控股有限公司); director of Hengdian Group DMEGC Magnetics Co., Ltd. (橫店集團東磁股份有限公司); director of Apeloa Pharmaceutical Co., Ltd. (普洛藥業股份有限公司); director of Innuovo Technology Co., Ltd. (英洛華科技股份有限公司); director of Hengdian Group Tospo Lighting Co., Ltd. (橫店集團得邦照明股份有限公司) and director of Hengdian Entertainment Co., Ltd. (橫店影視股份有限公司).

Directors, Supervisors, Senior Management, Employees and Institutions

Lou Ting (樓婷)

Ms. Lou Ting (樓婷) is currently a non-executive Director of the Company. Undergraduate and intermediary financial economist. Ms. Lou held several positions in Jinhua branch of Bank of Communications Co., Ltd. (交通銀行股份有限公司) as assistant manager of business department I, operating department and concurrently held the positions of manager of business and sales department III, vice general manager of international business department and business development department concurrently, manager of Jindong District and Dongyang District's regional business development department III and president of Dongyang sub-branch. She is now chief executive officer of Guangsha Holding Group Co., Ltd. (廣廈控股集團有限公司) and vice chairman of Zhejiang Guangsha Co., Ltd. (浙江廣廈股份有限公司).

Zhu Weiming (朱瑋明)

Mr. Zhu Weiming (朱瑋明) is currently a non-executive Director of the Company. Postgraduate. Mr. Zhu successively held the positions of vice director and director of the general manager service department at Jiaying Power Generation Co., Ltd.; vice general manager and secretary of the board for Zhejiang Southeast Electric Power Company Limited; vice general manager at Zhoushan Marine Comprehensive Development and Investment Co., Ltd.; vice director of the investment and development department at Zhejiang Marine Development & Investment Group Co., Ltd.; vice director of the investment and development department as well as vice director and director of the finance and asset management department at Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.. He is currently the director of the financial affairs department at Zhejiang Provincial Seaport Investment & Operation Group Co., Ltd.; chairman of Zhejiang Seaport Asset Management Co., Limited (浙江海港資產管理有限公司); chairman and general manager of Zhejiang Seaport Bulk Commodity Exchange Co., Ltd. (浙江海港大宗商品交易中心有限公司).

Jin Xuejun (金雪軍)

Mr. Jin Xuejun (金雪軍) is currently an independent non-executive Director of the Company. Post graduate and professor. Mr. Jin served as independent non-executive director of Harbin High-Tech (Group) Co., Ltd. (哈爾濱高科技(集團)股份有限公司), Zhejiang Orient Holdings Co., Ltd. (浙江東方股份集團有限公司) and Zhejiang Wansheng Co., Ltd. (浙江萬盛股份有限公司). Up to now, Mr. Jin has been engaged in finance teaching and research work in Zhejiang University for a long time. Mr. Jin is now the president of the International Finance Association of Zhejiang Province, State Council Special Allowance Expert and Young Expert with Outstanding Contribution of Zhejiang. He now holds the posts of independent non-executive director of Zhejiang Weixing Industrial Development Co., Ltd. (浙江偉星實業發展股份有限公司), Xihu Zhongbao Co., Ltd. (新湖中寶股份有限公司), Zuoli Kechuang Micro-finance Company Limited (佐力科創小額貸款股份投資有限公司), Changjiang & Jinggong Steel Building (Group) Co., Ltd. (長江精工鋼結構(集團)股份有限公司) and Hua'an Securities Limited Liability Company (華安證券股份有限公司) respectively; and the director of Hakim Unique internet Co., Ltd. (漢鼎宇佑互聯網股份有限公司).

Directors, Supervisors, Senior Management, Employees and Institutions

Tong Benli (童本立)

Mr. Tong Benli (童本立) is currently an independent non-executive Director of the Company. Postgraduate, professor and a senior accountant. Mr. Tong held the position of division chief of budget division of Zhejiang Provincial Department of Finance; associate dean, dean and secretary of CPC committee of Zhejiang College of Finance & Economics (now known as Zhejiang University of Finance and Economics); independent non-executive director of Zhejiang Medicine Co., Ltd. (浙江醫藥股份有限公司), Hangzhou Sunyard System Engineering Co., Ltd. (杭州信雅達系統工程股份有限公司), Zhejiang Narada Power Source Co., Ltd. (浙江南都電源動力股份有限公司), Soyea Technology Co., Ltd. (數源科技股份有限公司) and Zhejiang Reclaim Construction Group Co., Ltd. (浙江省圍海建設集團股份有限公司). Mr. Tong is currently an independent non-executive director of Hangzhou Jiebai Group Co., Limited (杭州解百集團股份有限公司) Zhejiang Anglikang Pharmaceutical Co., Ltd. (浙江昂立康製藥股份有限公司), Zhejiang Zhengyuan Zhihui Technology Co., Ltd. (浙江正元智慧科技股份有限公司), Hangzhou Changqiao Travelling Investment Co., Ltd. (杭州長喬旅遊投資集團股份有限公司), and Zhejiang Pujiang Rural Commercial Bank Co., Ltd. (浙江浦江農村商業銀行股份有限公司) respectively.

Yuan Fang (袁放)

Mr. Yuan Fang (袁放) is currently an independent non-executive Director of the Company. Undergraduate and the securities practice qualification. Mr. Yuan served as vice president of Zhejiang Academy of Bank (now known as Zhejiang Financial College); vice division chief of finance management office, Zhejiang provincial branch of People's Bank of China; vice general manager of Zhejiang Provincial Securities Trading Center; vice president of Tianyi Securities Co., Ltd. (天一證券有限責任公司); general manager of Zhejiang Property & Stock Exchange Co., Ltd. (浙江產權交易所有限公司); vice president of Coslight Technology International Group Co., Ltd. (光宇集團有限公司); chairman of Zhejiang Provincial Securities and Listed Company Research Association. He is currently the independent non-executive director of Myshare Bank of Wanzhou (溫州民商銀行) and the Chairman of the Supervisory Committee of Zhejiang Qiantangjiang Jinyanyuan Consultation Co., Ltd.

Dai Deming (戴德明)

Mr. Dai Deming (戴德明) is currently an independent non-executive Director of the Company. Doctoral degree and professor. Mr. Dai has been teaching at the accounting department of Renmin University of China, being a lecturer, associate professor and professor successively. Mr. Dai was an independent non-executive director of CRRC Corporation Limited (中國南車股份有限公司) and Shanxi Taigang Stainless Steel Co., Ltd. (山西太鋼不銹鋼股份有限公司), respectively. He currently serves as vice chairman of Accounting Society of China and independent non-executive director of Qingdao Haier Co., Ltd. (青島海爾股份有限公司), Beijing Capital Development Co., Ltd. (北京首都開發股份有限公司), BOC Aviation Limited and China Securities Co., Ltd. (中信建投證券股份有限公司).



Directors, Supervisors, Senior Management, Employees and Institutions

Liu Pak Wai (廖柏偉)

Mr. Liu Pak Wai (廖柏偉) is currently an independent non-executive Director of the Company. Doctoral degree and professor. Mr. Liu has been teaching at the Chinese University of Hong Kong, being a lecturer, senior lecturer, professor and chair professor of the Chinese University of Hong Kong successively, during which, he also worked as pro-vice chancellor of the Chinese University of Hong Kong. He served as director of Institute of Global Economics and Finance, The Chinese University of Hong Kong, and an independent non-executive director of Hang Lung Properties Limited (恒隆地產有限公司). Mr. Liu now works as a professor of Lau Chor Tak Institute of Global Economics and Finance, the Chinese University of Hong Kong, a director of Hong Kong Institute of Monetary Research under the HKMA, an independent non-executive director of Transport International Holdings Limited (載通國際控股有限公司) and Hang Lung Group Limited (恒隆集團有限公司) respectively; and a council member of Shenzhen Finance Institute. Mr. Liu was awarded the Hong Kong Silver Bauhinia Star in 1999 and was appointed Hong Kong Justice of the Peace in 2006.

Zheng Jindu (鄭金都)

Mr. Zheng Jindu (鄭金都) is currently an independent non-executive Director of the Company. Postgraduate and the qualification for the first grade lawyer. Mr. Zheng was a lecturer at the Faculty of Law of Hangzhou University (now known as Zhejiang University), a vice director and partner of Zhejiang Guoqiang Law Firm (浙江國強律師事務所) and an independent non-executive director of Changjiang & Jingong Steel Building (Group) Co., Ltd. (長江精工鋼結構(集團)股份有限公司). Mr. Zheng is currently a director and partner of Zhejiang L&H Law Firm (浙江六和律師事務所) and he is also the managing director of Ninth Council of All China Lawyers Association (中華全國律師協會), the president of Ninth Council of Zhejiang Lawyers Association (浙江省律師協會), the vice-president of Seventh Council of Zhejiang Law Association (浙江省法學會) and the president of Hangzhou Three Chamber of Commerce (杭州市三門商會會長). He serves as an independent non-executive director of Sundry Land Investment Co., Ltd. (宋都基業投資股份有限公司), Hangzhou ShenHao Technology Co., Ltd. (杭州申昊信息科技股份有限公司) and Wonderful-wall Materials Co., Ltd. (墻煌新材料股份有限公司).

Supervisors

Yu Jianqiang (于建強)

Mr. Yu Jianqiang (于建強) is currently the chairman of the Board of Supervisors and a shareholder representative Supervisor of the Company. Postgraduate. Mr. Yu worked successively in the Communist Youth League of Zhejiang Provincial Party Committee as vice minister in propaganda department and the head of United Front Work Department. He also served as general secretary and vice chairman of Zhejiang Youth United Association. He successively worked as vice section chief and chief in the Office of the Food and Drug Administration of Zhejiang (during which period he concurrently worked as director of the planning and finance department from October 2003 to December 2005); and assistant to the chief executive officer of Minsheng Life Insurance Company Ltd. (民生人壽保險股份有限公司).

Zheng Jianming (鄭建明)

Mr. Zheng Jianming (鄭建明) is currently the vice chairman of the Board of Supervisors, director of the Board of Supervisors Office and employee representative supervisor. Postgraduate and economist. Mr. Zheng successively worked as the office secretary of Zhejiang provincial branch of PBOC, and office secretary and vice director of the secretary section of Hangzhou Central Branch of PBOC. He successively held the positions of vice division chief and secretary at director level in the General Office of the People's Government of Zhejiang Province.

Directors, Supervisors, Senior Management, Employees and Institutions

Tao Xuegen (陶學根)

Mr. Tao Xuegen (陶學根) is currently a Shareholder representative Supervisor of the Company. Undergraduate and economist. Mr. Tao served as the Director of the Company. He is currently serving as the deputy secretary of CPC committee of Lizi Industrial Group Co., Ltd. (李字實業集團有限公司).

Zhou Yang (周洋)

Mr. Zhou Yang (周洋) is currently a Shareholder representative Supervisor of the Company. Undergraduate. Mr. Zhou served as an assistant to financing manager of Zhejiang Yongli Industry Group Co., Ltd. (浙江永利實業集團有限公司). He is currently the vice chairman of the Board and secretary of CPC committee of Zhejiang Yongli Industry Group Co., Ltd. (浙江永利實業集團有限公司); an executive director of Shaoxing Keqiaoyishan Culture and Development Co., Ltd. (紹興柯橋一山文化發展有限公司); and a supervisor of Shaoxing Keqiaoyongyang Assets Management Co., Ltd. (紹興柯橋永洋資產管理有限公司).

Wang Chengliang (王成良)

Wang Chengliang (王成良) is currently an employee representative Supervisor of the Company. Postgraduate and senior economist. Mr Wang had worked in People's Bank of China Wenzhou Branch, and successively held the positions of Vice Chief of Planning Subsection of Wenzhou Branch, Vice President of Ouhai County Sub-Branch and Wenzhou Chengnan Sub-Branch, Chief of Planning Division and the first Business Division of Wenzhou Branch, and President of Wenzhou Wuma Sub-Branch of the ICBC; Vice President and President of China Guangfa Bank Wenzhou Branch; General Manager of Wenzhou Business Department and President of Wenzhou branch of CZBank. He's been serving as General Manager of the HR Department of the Company.

Ge Lixin (葛立新)

Mr. Ge Lixin (葛立新) is currently an employee representative Supervisor of the Company. Undergraduate and economist. Mr. Ge worked at Zhejiang Branch, Agricultural Bank of China; Mr. Ge successively held the posts of executive manager, assistant to general manager and vice general manager of business management department of the Company, during which, he held concurrent posts of vice general manager of small business credit center and vice general manager of corporate banking department; vice general manager and general manager of development and research department, during which, he also held concurrent positions of vice general manager of small business credit center and vice general manager of planning and finance department. He is currently general manager of asset and liability management department of the head office of the Company.

Zhang Rulong (張汝龍)

Mr. Zhang Rulong (張汝龍) is currently an employee representative Supervisor of the Company. Undergraduate and senior economist. Mr. Zhang worked at Shaoxing sub-branch, Zhejiang provincial branch, credit and loan management division of provincial branch, Zhejiang Rongda Information Inquiry Company (浙江融達信息諮詢公司) and Shaoxing branch of Agricultural Bank of China, etc. Mr. Zhang has successively served as vice general manager of the risk management department, vice general manager and general manager of the credit assessment department, president of Chengdu branch of the Company. He is currently general manager of the credit assessment department of the Company.



Directors, Supervisors, Senior Management, Employees and Institutions

Jiang Zhihua (蔣志華)

Mr. Jiang Zhihua (蔣志華) is currently an external Supervisor of the Company. College undergraduate and senior economist. Mr. Jiang served as the president of Ningbo branch and Zhejiang provincial branch of Agricultural Bank of China, and the Director of the Company.

Yuan Xiaoqiang (袁小強)

Mr. Yuan Xiaoqiang (袁小強) is currently an external Supervisor of the Company. Master and registered tax agent, senior accountant and certified public accountant. Mr. Yuan served as the vice director of Hangzhou Tax Agency of Zhejiang. He is currently a senior partner of Zhonghui Tax Agency and Zhonghui Accounting Firm. Mr. Yuan is also a member of Chinese People's Political Consultative Conference of Zhejiang, executive director of the Chinese Certified Tax Agents Association, vice chairman and director of the Standards Committee of Certified Tax Agents Association of Zhejiang and vice chairman of Zhejiang Province Intellectuals Fellowship, and the director of Zhejiang Kaibei Investment and Consultation Co., Ltd. (浙江凱貝投資諮詢有限公司) and Hangzhou Sidu Investment and Consultation Co., Ltd. (杭州思渡投資諮詢有限公司).

Huang Zuhui (黃祖輝)

Mr. Huang Zuhui (黃祖輝) is currently an external Supervisor of the Company. Postgraduate and professor. Mr. Huang is currently the professor and doctoral supervisor of Agricultural Economical Management Department, Management School, Zhejiang University. Mr. Huang is also vice chairman of Chinese Rural Cooperative Economic Management Institute, an independent director of Zhejiang Tea Group Co., Ltd. (浙江省茶葉集團股份有限公司) and Zhejiang Agricultural Materials Group Co., Ltd. (浙農集團股份有限公司).

Wang Jun (王軍)

Mr. Wang Jun (王軍) is currently an external Supervisor of the Company. Postdoctorate and researcher. Mr. Wang worked at Central Policy Research Office of the CPC and served as vice division chief and division chief; director of macroeconomic research division, vice director (in charge) of consultation research department, vice director (in charge) and director of information department of China Center for International Economic Exchanges. He is currently a chief economist of Zhongyuan Bank Co., Ltd..

Cheng Huifang (程惠芳)

Ms. Cheng Huifang (程惠芳) is currently an external Supervisor of the Company. Doctoral degree, professor and doctoral supervisor. Ms. Cheng had been the lecturer and the vice professor of Zhejiang Chemical College and Zhejiang Institute of Technology (now known as Zhejiang University of Technology). She also worked as the assistant to the president, the executive vice president and the president of College of Economics and Management, Zhejiang University of Technology. She is now the president of Global Institute for Zhejiang Merchants Development, Zhejiang University of Technology. She also serves as the general director of Zhejiang Institute of Financial Engineering and an independent director of Zhejiang Furun Co., Ltd (浙江富潤股份有限公司) and Hangzhou Hangyang Co., Ltd. (杭州杭氧股份有限公司).

Senior Management

Liu Xiaochun (劉曉春)

As for Mr. Liu Xiaochun, please refer to Mr. Liu Xiaochun's profile in the "Directors" section above.

Directors, Supervisors, Senior Management, Employees and Institutions

Xu Renyan (徐仁艷)

As for Mr. Xu Renyan, please refer to Mr. Xu Renyan's profile in the "Directors" section above.

Ye Jianqing (葉建清)

Mr. Ye Jianqing (葉建清) is currently the party committee member and vice president of the Company during the reporting period. Postgraduate and senior economist. Mr. Ye served as vice division chief of the financial division of Zhejiang Bank School (now known as Zhejiang Financial College); director of experiment urban credit cooperative of Zhejiang Bank School; and general manager of experiment bank of Zhejiang Bank School. He successively held the positions of vice manager and manager of planning credit and loan department, Hangzhou branch, CITIC Industrial Bank, president assistant of Hangzhou branch and president of Tianshui sub-branch, party committee member, vice president, and secretary of commission for disciplinary inspection, president assistant and general manager of risk management department, president assistant and general manager of risk management department (compliance department), vice president and general manager of risk management department (compliance department) as well as vice president of CZBank.

Mr. Ye has resigned from his position as the vice president of the Company with effect from March 15, 2018.

Zhang Changgong (張長弓)

Mr. Zhang Changgong (張長弓) was the party committee member and vice president of the Company. Doctoral degree. Mr. Zhang successively held the posts of assistant to general manager and vice general manager of personnel supervision department of Great Wall Securities Limited (長城證券有限責任公司); vice general manager, general manager of general affairs department, party committee member and vice president of Shenzhen branch of Industrial Bank; secretary of CPC committee and president of Guangzhou branch of Industrial Bank; secretary of CPC committee and president of Nanjing branch of Industrial Bank; primary responsible officer of preparation group for reorganization and re-establishment of Guangdong Huaxing Bank; vice president of management head office of retail banking, general manager of personal banking department, Industrial Bank, and secretary of CPC committee and president of Hangzhou branch of Industrial Bank, respectively.

Xu Manxuan (徐蔓萱)

Mr. Xu Manxuan (徐蔓萱) is currently the party committee member and vice president of the Company. Undergraduate and senior accountant. Mr. Xu successively served as vice section chief and section chief of finance infrastructure office, accountant and cashier division of Zhejiang provincial branch, Agricultural Bank of China; vice division chief of accountant and finance division; vice director of inspection office; and vice director of inspection division (division-level), Zhejiang provincial branch, Agricultural Bank of China, general manager of planning and finance department, president assistant and general manager of planning and finance department, president assistant and general manager of finance & accounting department as well as president assistant of CZBank.

Wu Jianwei (吳建偉)

Mr. Wu Jianwei (吳建偉) is currently vice president of the Company. Postgraduate and senior engineer. Mr. Wu worked in Zhejiang provincial branch, Agricultural Bank of China where he successively held the positions of vice section chief of application development section of information and technology department I, section chief of sales development department, assistant to director; he served as vice director of data operation center; he held the position of vice division chief (in charge) of e-bank division and division chief of E-bank division; general manager of E-bank department; secretary of CPC Committee and president of Wenzhou branch, Agricultural Bank of China; CPC party committee member and president assistant of Inner Mongolia Autonomous Region branch of Agricultural Bank of China; president assistant of CZBank.



Directors, Supervisors, Senior Management, Employees and Institutions

Liu Long (劉龍)

Mr. Liu Long (劉龍) is currently vice president, secretary of the Board, joint company secretary and head of Board of Directors Office of the Company. Undergraduate and senior accountant. Mr. Liu worked at finance and tax bureau of Changshan County, Zhejiang, during which period he served as vice director and CPC party member; secretary of CPC party committee of Tianma Town, Changshan County, Zhejiang; director and secretary of CPC committee of planning and economy committee of Changshan County, Zhejiang; vice director and CPC committee member of auditing bureau of Quzhou City, Zhejiang; county CPC standing committee member of Changshan County, Zhejiang, as well as vice county chief of Changshan County People's Government; vice secretary of CPC county committee, vice county chief and vice secretary of CPC county committee, vice secretary of CPC committee of Changshan County, Zhejiang and chairman of People's Political Consultative Conference of Changshan County, Zhejiang; director and secretary of CPC committee of the economic and information committee of Quzhou City, Zhejiang; vice secretary general and executive office director of Quzhou Municipal Government, Zhejiang.

Jiang Yulin (姜雨林)

Mr. Jiang Yulin (姜雨林) is currently the vice president of the Company. Undergraduate. Mr. Jiang successively worked as an employee of the operation department of Hangzhou branch of PBOC; vice section chief of accounting management section of accounting department, section chief of development and management section of retail business department, division chief of corporate business division IV of operation department and retail business division of Hangzhou branch, China CITIC Bank; president of Jiefang sub-branch of Hangzhou branch and Tianshui sub-branch, China CITIC Bank; president assistant of Hangzhou branch, China CITIC Bank; vice president and general manager of operation department of Hangzhou branch, China CITIC Bank; general manager of corporate banking department of China CITIC Bank; director of CITIC Financial Leasing Co., Ltd..

Zhang Rongsen (張榮森)

Mr. Zhang Rongsen (張榮森) is currently vice president of the Company. Doctoral degree and senior economist. Mr. Zhang worked as the president of Hangtianqiao Sub-branch, Beijing branch, CGB; the president assistant and party committee member of Beijing branch, CGB; the secretary of CPC committee and the president of Beijing branch, Jiangsu Bank; the party committee member, vice president and executive director of Jiangsu Bank.

5. REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

Directors, Supervisors, Senior Management, Employees and Institutions

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

The incentive and restraint mechanism of the Company is mainly embodied in the distribution mechanism for the senior management. The remuneration to the senior management is linked to the appraisal indicators of the Board of Directors, in order to combine the target incentive with responsibility restraint, ensure the alignment of the remuneration payment with the long-term interests of the Company, and better encourage the senior management to contribute to the steady and sustainable development of the Company. The evaluation and remuneration payment plan for the senior management shall be reviewed by the Nomination and Remuneration Committee under the Board of Directors, and then approved and implemented by the Board of Directors annually, and disclosed according to the relevant requirements.

(II) EMPLOYEES AND REMUNERATION POLICIES

At the end of the reporting period, we had 13,214 employees in total (including staff under a labour despatch arrangement), representing an increase of 1,909 as compared to that at the end of Last year. Based on the position types, 5,857 were marketing personnel, 1,580 were counter personnel, and 5,777 were mid-office and back-office personnel; based on educational levels, 2,583 obtained post-graduate degree or above (including 69 with doctorate degree), 8,953 obtained bachelor degree, and 1,678 obtained college degree or below. All of our employees participate in basic social pension insurance, and as of the end of the reporting period, 21 employees had retired from the Company.

Following the remuneration policies that are in line with our development strategies, guided by the concept of people first, oriented to market, and equipped with comprehensive standardized management, the Company improved its remuneration management mechanism that determines the remuneration according to the salary levels based on position types, and optimized the remuneration determination mechanism that is based on individual performance and organizational performance. Focused mainly on capability and performance, we tried to establish and improve a market-oriented remuneration system that embodies internal fairness and external competitiveness, spurs development of both the employees and the Company, and emphasizes both welfare and incentives, and is based on the value of positions.

(III) EMPLOYEES TRAINING

Centered on our operation and development strategies, guided by the transformation promoted by the service strategy, based on the improvement of professional capabilities and operating results, our Company explores the value of talent, refines the organization strength, and practices a variety of trainings including leadership training, business line core personnel training and training for personnel holding key positions, so as to raise the professional capabilities and quality of our employees at their positions. During the reporting period, the Bank held 2,165 training courses in total with 166,231 attendances.

Directors, Supervisors, Senior Management, Employees and Institutions

(IV) INFORMATION ON INSTITUTIONS

Region	Name of institution	Business address	Tel. No.	Postal code	Number of institution	Number of employees
Yangtze River Delta region	Headquarters	No. 288, Qingchun Road, Hangzhou	95527	310006	1	1,843
	Small Enterprise Credit Center	No. 288, Qingchun Road, Hangzhou	0571-87659510	310006	1	47
	Shanghai Branch	No. 567, Weihai Road, Shanghai	021-61333333	200041	11	544
	Nanjing Branch	No. 9, Zhongshan North Road, Gulou District, Nanjing	025-86823636	210008	19	857
	Suzhou Branch	Yueliangwan International Business Center, No. 9, Cuiwei Street, Industrial Park Zone, Suzhou	0512-62995527	215123	8	394
	Hefei Branch	Block A16, Financial Harbour Centre at the junction of Huizhou Avenue and Yangtze River Road, Baohe District, Hefei	0551-65722016	230611	1	94
	Hangzhou Branch	No. 736, Jianguo North Road, Hangzhou	0571-87330733	310004	43	2,178
	Ningbo Branch	No. 739, Zhongxing Road, Jiangdong District, Ningbo	0574-81855678	315040	15	637
	Wenzhou Branch	Northwest of Land Plot 17-05, Binjiang CBD, Wenzhou, Zhejiang	0577-88079900	325000	10	484
	Shaoxing Branch	No. 1418, Jinkeqiao Avenue, Keqiao District, Shaoxing	0575-81166006	312030	9	418
	Yiwu Branch	No. 955, Beicun Road, Yiwu, Zhejiang	0579-83811501	322000	6	361
	Zhoushan Branch	Pavilion 2, No. 111, Haiyu Road, Lincheng Town, Zhoushan	0580-2260302	316021	2	116
	Bohai Rim region	Beijing Branch	Jia 1-1, Jinrong Main Street, Xicheng District, Beijing	010-88006088	100033	9
Tianjin Branch		No. 37, Youyi North Road, Hexi District, Tianjin	022-23271223	300204	10	547
Shenyang Branch		No. 56, Qingnian main street, Shenhe District, Shenyang	024-31259003	110014	6	285
Jinan Branch		No. 185, Heixi Road, Lixia District, Jinan, Shandong	0531-80961706	250011	11	663
Pearl River Delta region	Guangzhou Branch	No. 921, Guangzhou South Avenue, Haizhu District, Guangzhou	020-89299999	510220	3	375
	Shenzhen Branch	Times Science and Technology Mansion, No. 7028, Shennan Avenue, Futian District, Shenzhen	0755-82760666	518040	9	457
Midwestern China	Zhengzhou Branch	No. 2, Shangwu Waihuan Road, Zhengdong New District, Zhengzhou	0371-66277306	450018	1	142
	Wuhan Branch	International Financial Center, No. 296, Xinhua Road, Jiangnan District, Wuhan, Hubei	027-85331510	430000	2	205
	Chongqing Branch	Block A, No. 1, Xingguang Avenue, High-Tech Park, New North Zone, Chongqing	023-88280888	401121	8	426
	Chengdu Branch	Building 1, Jinjiang Spring, No. 299, Yong'an Road, Jinjiang District, Chengdu	028-85511859	610023	12	510
	Xi'an Branch	No. 311, West Avenue, Xi'an	029-88121212	710002	9	496
	Lanzhou Branch	No. 308, Baiyin Road, Chengguan District, Lanzhou	0931-8172110	730030	7	409
Overseas Institution	Hong Kong Branch	15/F, Three Exchange Square, 8 Connaught Place, Central, Hong Kong	0852-28018282	999077	1	41
Total	-	-	-	-	214	13,214

Directors' Report

(I) OUR PRINCIPAL BUSINESS

The Company's principal business is to provide banking and related financial services.

(II) BUSINESS REVIEW

For the business review of our Company, please refer to the relevant sections, among others, "Description of Major Risks and Uncertainties", "Future Development" are set out in section headed "Management Discussion and Analysis"; "Major Events Occurred after the Reporting Period" is set out in "Significant Events"; "Key Financial Performance Indicators" is set out in the section headed "Financial Summary" and financial statements; "Compliance with Relevant Laws and Regulations Which Could Materially Affect the Company" is set out in "Compliance with the Laws and Regulations" in this section; and "Explanation on Important Relationship between Employees, Customers and Suppliers" is set out in "Major Customers" in this section and the section headed "Directors, Supervisors, Senior Management, Employees and Institutions". Please refer to "Social Responsibility Report" in this section for the information on environmental policy and performance.

(III) PROFIT AND DIVIDEND DISTRIBUTION

1. THE COMPANY'S PROFIT DISTRIBUTION POLICY

According to the Articles of Association, our profit distribution policy is:

(1) The Company shall distribute profits after income tax in the following order:

To make up for the losses of previous years;

To set aside 10% as statutory reserve fund;

To make provision for loss of asset impairment;

To set aside discretionary reserve fund;

To pay dividends to shareholders.

(2) The Company may distribute profits in the form of cash, shares or other forms approved by competent regulatory authorities.

(3) After the profit distribution plan is adopted at the general meeting of the Company, the Board shall finish distributing profits within two months after the general meeting.

(4) Cash dividends and other payments made by the Company to the holders of domestic Shares shall be denominated, declared and paid in RMB. Cash dividends and other payments made by the Company to the holders of H Shares shall be denominated and declared in RMB and paid in Hong Kong dollars.

The formulation and implementation of policy on cash dividend are in compliance with the requirements of the Articles and Association and the resolutions passed at the general meeting. The standards and proportion of dividends declaration are clear and explicit and the procedures and mechanism of decision making are mature, and have been considered and approved by the independent non-executive Directors. Minority Shareholders may fully express their opinions and requirements, and their legitimate interests have been fully protected.

Directors' Report

2. PROFIT DISTRIBUTION PROPOSAL FOR THE YEAR

The results of the Company for the year ended December 31, 2017 are set out in the section of "Notes to the Financial Statement" in this report.

The Board of Directors has recommended declaring a cash dividend for ordinary Shares for 2017 at RMB1.70 (tax inclusive) for every 10 Shares, payable in RMB to the holders of domestic Shares and in Hong Kong dollars to the holders of H Shares. The above dividend distribution proposal is subject to consideration and approval at the annual general meeting of the Company for 2017.

If approved, the 2017 final dividend of the Company will be denominated and declared in RMB and paid to the holders of the Domestic Shares in RMB and to the holders of the H Shares in Hong Kong dollars with the Hong Kong dollar to RMB exchange rate being the average mid-point exchange rate published on the website of the People's Bank of China prevailing seven business days immediately prior to the date of 2017 annual general meeting of the Company.

The expected dividend payment date will be Wednesday, August 15, 2018, subject to the approval by the shareholders by way of ordinary resolution on the final dividend payment arrangement. Information regarding the record date and book closure date to determine the entitlement to the final dividend and attendance of 2017 annual general meeting of the Company will be announced in due course.

3. CASH DIVIDENDS IN THE PAST THREE YEARS

Item	2017	2016	2015
Cash dividend for every 10 shares (tax inclusive, in RMB)	1.70	1.70	1.30
Cash dividend (tax inclusive, in thousands of RMB) ⁽¹⁾		3,053,148	2,334,761
Percentage of cash dividend (%) ⁽¹⁾		30.07	33.11

Note:

(1) In 2017, the total amount and the percentage of cash dividend were calculated on the basis of the then total share capital on the record date of profit appropriation.

4. DIVIDEND TAX

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

According to the Notice on Collection of Individual Income Tax after the Repeal of Guo Shui Fa No. [1993] 045 (Guo Shui Han No. [2011] 348) (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), the Company shall withhold and pay individual income tax for individual holders of the H Shares.

If the individual holders of the H Shares are Hong Kong or Macau residents or residents of other countries or regions that have a tax rate of 10% under the tax treaties with the PRC, the Company will withhold and pay individual income tax at the rate of 10% on behalf of such Shareholders.

Directors' Report

If the individual holders of the H Shares are residents of countries or regions that have a tax rate lower than 10% under the tax treaties with the PRC, the Company will withhold and pay individual income tax at the rate of 10% on behalf of such Shareholders. If such Shareholders wish to claim refund of the amount in excess of the individual income tax payable under the tax treaties, the Bank can apply on behalf of the Shareholders according to the relevant tax treaties for the relevant agreed preferential tax treatment, provided that the relevant Shareholders submit the relevant documents and information in a timely manner required by the Administrative Rules on Enjoying Treatment under Taxation Treaties by Non-resident Taxpayers (State Administration of Taxation Announcement 2015, No. 60) (《非居民納稅人享受稅收協定待遇管理辦法》(國家稅務總局公告2015年第60號)) and the provisions of the relevant tax treaties. The Bank will assist with the tax refund subject to the approval of the competent tax authority.

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

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

(IV) DONATIONS

During the reporting period, the Group's external donations amounted to RMB4.86 million.

(V) MAJOR CUSTOMERS

As of the end of the reporting period, the Group's interest income and other total operating income attributable to our five largest customers did not exceed 30% of the annual interest income and other total operating income of the Group.

(VI) PURCHASE AND SALE AND REDEMPTION OF SECURITIES

During the reporting period, the Company and its subsidiaries did not purchase, sell or redeem any of the Company's listing securities.

(VII) PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and the PRC laws.

(VIII) PUBLIC FLOAT

Based on the public information available to the Company and to the knowledge of the Directors, as of the latest practicable date prior to the issue of this report, the Company had met the public float requirement of the Hong Kong Listing Rules.

(IX) EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year ended December 31, 2017.

(X) CONNECTED TRANSACTIONS

During the reporting period, we provided commercial banking services and products in our ordinary and usual course of business to the public in the PRC, which include our connected persons (including certain shareholders, Directors, Supervisors, senior management and/or their respective associates). These transactions are entered into on normal commercial terms (or better terms in favor of the Company) in the ordinary and usual course of our business, and thus are fully exempt from the disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Company also enter into certain non-banking transactions (such as leasing arrangements) with our connected persons and/or their respective associates from time to time in our ordinary and usual course of business on normal commercial terms (or favourable terms to us) which have constituted de minimis transactions under Chapter 14A of the Hong Kong Listing Rules and are fully exempted from all disclosure, annual review and Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Details of related party transactions entered into by the Company during the year ended December 31, 2017 are set out in "Notes to the Financial Statements – 40 Related Party Transactions".

Saved as disclosed above, no related party transactions set out in "Note to the Financial Statements – 40 Related Party Transactions" comply with the definition of "connected transactions" or "continuing connected transaction" in Chapter 14A of the Hong Kong Listing Rules and the Company confirms that it has complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

(XI) TRANSACTIONS, ARRANGEMENTS OR CONTRACTUAL RIGHTS AND SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

During the reporting period, the Directors or Supervisors or any entities connected with the Directors or Supervisors had no material interest, directly or indirectly, in any significant transactions, arrangements or contracts entered into by the Company with respect to the Company's business. None of the Directors and Supervisors has entered into any service contract with the Company that is not terminable by the Company within one year without payment of compensation (excluding statutory compensation).

(XII) INTERESTS OWNED BY THE DIRECTORS, CHIEF EXECUTIVE AND SUPERVISORS IN THE COMPANY

As of the end of the reporting period, none of the Company's Directors, the President, the Supervisors or their respective associates had interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO or notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

(XIII) INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the Directors, Supervisors and senior management of the Company are set out in the section headed "Directors, Supervisors, Senior Management, Employees and Institutions" in this annual report.

(XIV) DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors has any interest in any business that competes or is likely to compete, either directly or indirectly, with the business of the Company.

(XV) DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

As of the end of the reporting period, none of the Directors and Supervisors had the rights to acquire shares or debentures of the Company and its associated corporations (within the meaning of the SFO).

(XVI) PERMITTED INDEMNITY PROVISIONS

The Company has purchased appropriate liability insurance to indemnify its Directors, Supervisors and senior management in respect of the liabilities arising from engaging in the activities of the Company. Such arrangements remained effective as at the end of the reporting period.

(XVII) MANAGEMENT CONTRACTS

Save as the service contracts entered into with the Directors and employees, the Company has not entered into any contract with any person, company or corporation in order to manage or deal with the whole or any material portion of any business of the Company.

(XVIII) RESERVES AND DISTRIBUTABLE RESERVES

For details of the changes in the Group's reserves and distributable reserves, please see "Financial Statements – Statements of Changes in Equity".

(XIX) FIXED ASSETS (PROPERTIES AND EQUIPMENTS)

For details of the changes in the Group's fixed assets (properties and equipments), please see "Notes to the Financial Statements – 21 Fixed Assets".

(XX) EXTERNAL AUDITORS AND THEIR REMUNERATION

The Company engaged PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the auditors to audit the annual financial statements of the Company for 2017 prepared in accordance with the Chinese Accounting Standards and International Financial Reporting Standards, respectively.

The remuneration paid to the above external auditors of the Company in respect of audit services and non-audit service as of the end of the reporting period amounted to RMB4.98 million and RMB1.59 million, respectively.

The Company has not changed the external auditor for the past three years.

(XXI) USAGE OF PROCEEDS RAISED

During the reporting period, the Company successfully issued the offshore preference shares in Hong Kong on March 29, 2017, which was subscribed in US dollar, and raised the total capital of RMB14.989 billion. After deducting the issuance expenses, the remaining capital were totally used to replenish the Company's Additional Tier 1 Capital, increase the Tier 1 Capital Adequacy Ratio of the Company and optimize the capital structure.

Prior to the reporting period, the Company conducted an initial public offering of H shares. The proceeds raised by the Company have been applied for the purposes disclosed in the prospectus, which were used to strengthen our capital base to meet capital needs for the continuous growth of our business.

(XXII) DEBENTURES ISSUED

Please refer to “Changes in Shares and Information on Shareholders – Issue of Bonds” of this Report for details about the debentures issued by the Company.

(XXIII) COMPLIANCE WITH THE LAWS AND REGULATIONS

As of the end of the reporting period, to the best knowledge of the Company, we have complied with all relevant laws and regulations which could materially affect the Company in all major aspects.

(XXIV) PERFORMANCE OF SOCIAL RESPONSIBILITIES

In 2017, CZBank made positive response to the call of the Center Government and the national strategic deployment, and insisted on the organic integration of performing social responsibility and sustainable development, thus making efforts to create the comprehensive economic, environmental and social values. The Company made remarkable achievements in discharging social responsibilities throughout the year and received considerable recognitions from regulatory authorities and the general public. The Company received the top public welfare award of the national banking industry – “Best Social Responsible Financial Institution Award” for the fourth time.

NEW MOMENTUM ASSISTING THE DEVELOPMENT OF REAL ECONOMY

CZBank focused on the conversion of economic growth momentum and the diversified financial needs under the supply-side structural reform, took initiatives to serve the national key strategies and major projects, took a series of measures to “maintain economic growth, promote restructuring and improve people’s livelihood”, and continuously enhanced the quality and efficiency in serving real economy.

Firstly, the Company vigorously supported the national key development strategies, and promoted the industrial transformation and upgrading. The Company explored into providing high-quality financial services for relevant projects alongside the “One Belt One Road”, and provided guaranteed support of nearly US\$1 billion for many countries and regions including Malaysia, Singapore, UAE and Poland. Meanwhile, the Company was the first in the industry to launch the intelligent manufacturing financial solutions featured by “financing capitals, goods and services”, and built the first “intelligent manufacturing service bank” in the industry. The Company rooted in Zhejiang and providing services nationwide, and strengthened the support of regional urban rail transit, major water conservancy projects, shantytown renovation, etc. As of the end of 2017, the “Yongjin” series pooled products achieved the total the pooled assets of RMB969.947 billion, saving the interest expenditure of RMB1.694 billion for customers; credit balance of the intelligent manufacturing sector of the Bank was RMB39.62 billion, representing an increase of 70.9% as compared to the beginning of the year.

Secondly, the Company made full use of the benchmarking advantages of small and micro finance, and continuously improved the inclusive financial services. The official establishment of the Inclusive Finance Business Department made the Company be the third nationwide joint-stock bank in China, and preliminarily build up the three-level inclusive finance and operation management system of the matrix structure and pass-through type; implemented the small and micro finance process 2.0 reengineering project, launched the fully online operating product “Easy Loan” to replace enterprise running with data “traffic” and to enhance user experience by “replace humans with robots”. As of the end of 2017, the Company provided credit services to more than 160,000 small and micro customers and granted loans of more than RMB600 billion; the balance of national-standard small and micro enterprise loans of the Company was RMB182.205 billion, accounting for 27.06% of various loans and ranking the forefront of the nationwide joint-stock commercial banks.

Directors' Report

Thirdly, the Company explored into the “hematopoietic” targeted poverty alleviation, and effectively implemented the financial poverty alleviation work. The Company laid out initiatives to continue increasing service outlets in poverty-stricken areas, and established 40 business outlets in twelve provisions (regions) in Western China, including Sichuan, Shaanxi and Gansu; cooperated with multiple parties including local governments and third-party agencies to establish support fund and industry fund, etc., expand the credit input for poverty alleviation and enhance accuracy of poverty alleviation; innovated the products, and launched customized agriculture-related products according to customer demands in poverty-stricken areas, such as “Homestay Loan” and “Agricultural E-commerce Loan”, to initiatively support poverty alleviation by local tourism and e-commerce. As of the end of 2017, balance of the targeted poverty alleviation loans of the Company was RMB74.6923 million, with the loan to the population that already alleviated from poverty being RMB82.0636 million.

NEW EXPERIENCE HELPING CREATE AND ENJOY CONVENIENT FINANCIAL SERVICES

CZBank has enhanced the service quality by focusing on financial technologies and actively created an integrated, processed and intelligent smart bank, and, so as to contribute our financial force to meet people's requirements in their growing beautiful life.

Firstly, the Company made synchronous efforts online and offline, to further improve the service channels. Based on “Internet Plus” and financial technologies, the Company made active layout of online channel innovation, presented the new direct selling mobile banking brand “Zhe + Bank”, upgraded the Finance Market and Wealth Cloud, and continuously optimized the platform functions such as online banking, mobile banking, WeChat bank, etc., so as to provide the 7x24h whole-day one-stop services for customers; and scientifically planned and promoted the construction of branch outlets, and almost completed the construction of operations network of the Bank. As of December 31 2017, the Bank has established 213 branch outlets in 15 provinces (municipalities) in Mainland China and Hong Kong Special Administrative Region, and 10 institutions including Beijing Wufang Branch was honored as “Five Star” Demonstration Branch Outlets for Civilized and Standardized Services by China Banking Association.

Secondly, the Company enhanced customer service efficiency and level, and optimized customer experience. The Company innovated financial products by focusing on customer needs, and launched human face recognition and login, AR Wealth Report, etc., to effectively upgrade customer experience; created the intelligent customer service system, and basically completed the setup of intelligent online customer service platform framework, to greatly improve the online channel response rate; and provided more convenient and considerate financial services to special customer groups by setting blind passes and priority seats and by taking measures such as opening green channels, and carrying out sign language training. As of the end of 2017, the number of the Bank's branch outlets with barrier free access facilities and priority windows reached 158 and 155 respectively; there was no major customer complaint or public sentiment events for operating services, with the customer satisfaction rate up to 99.72%.

Thirdly, the Company continued strengthening the consumer rights protection work, to enhance the right-protection awareness and ability of consumers. The Company actively promoted relevant work for preventing against telecommunication frauds, launched the online telecommunication fraud management platform, emphasized on property and information security protection of customers, and respected the consumers' right to know; innovated the “21 standard methods” for review of the consumer rights protection, which was fully affirmed by the supervisory authorities such as CBIRC; and carried out propaganda activities about financial knowledge themed with “If you are well, it will be sunny”. In 2017, CZBank invested RMB5.11 million in public education services, with 1,560,000 target audience attracted.

NEW IMAGE STIMULATING GREEN FINANCIAL VITALITY

CZBank actively practiced the green finance philosophy, brought into full play the guiding and boosting role of financial resources allocation in economic transformation and upgrade, attached importance to achieving coordination of business development and environmental protection, and made unremitting efforts to construct a green bank.

Firstly, the Company constructed the green finance development system. The Guiding Opinions for CZBank Green Finance was formulated to primarily deploy and orderly advance the green finance work; the Company covered the green finance index into the performance evaluation system of the branches, and inserted into the investigation and survey link; carried out in-depth and delicate industry research, fully considered the environmental and social factors according to customer features of different industries, and give directional support to green enterprises and projects. As of the end of 2017, the Company's financing balance in the five emerging industries reached RMB54.465 billion, representing an increase of 43.6% as compared to that of last year.

Secondly, the Company innovated upon the green finance products and services. The Company opened up a "green channel" for green newly-founded enterprises, promoted the effective extension of the green industry chain to the customers; used the capital market to enrich the green industry financing channels, provided integrated financial services for green enterprises through such innovative business modes as "Investment Advisory Loan" and pooled finance; actively focused on the construction of green finance reform pilot areas in Huzhou and Quzhou, strengthened the green financial cooperation with regional customers; promoted electronic and digital management by financial technology, launched digital credit accounts (i.e. zero-carbon credit cards), reduced customer operation and energy costs. As of the end of 2017, the Company had achieved a green credit balance of RMB3.6 billion, with an increase of 4.42 times over the previous year.

Thirdly, the Company practiced the goal of green operations. The Company advocated green office, reduced paper materials and disposable supplies, promoted the use of recycled paper products, saved water and electricity, implemented waste recycling management, encouraged green travel and strived to reduce carbon emissions; conducted uniform image building of business outlets, installed energy-saving equipment, carried out innovative application of new materials such as microlite, explored the green decoration in outlets; actively caused employees, customers, suppliers and the public to set up green awareness, endeavored to use recyclable, green, eco-friendly materials and manufacturing processes, and preferred "green" suppliers.

NEW UNDERTAKINGS DELIVERING PLEASING LIFE COMPASSIONS

CZBank persisted in the philosophy of “originating from the society and repaying the society”. The head office and branches cooperated together to support public welfare undertakings, carry out disadvantaged groups, devote to volunteers’ activities, and persistently share development fruits with the society.

Firstly, the Company continued exploring into the long-term mechanism and innovative models of public welfare. The Company continued to carrying forward the good tradition of “sending love while opening branch outlets”, and RMB2.88 million was donated by branches and sub-branches due to commencement of operations throughout the year; sponsored the “CZBank Rainbow Plan” – a public welfare student support action for the sixth year in succession, focused on “Dream Coming True” in Sichuan, Gansu, Anhui, etc., and carried out new activities such as “love in the mountainous areas”, APP monthly love donation, etc., which raised donations of RMB1.76 million and assisted 447 students in mountainous areas; during the celebration period of the Bank on August 18, a large-scale public welfare free drink event, themed with “Salute to City Guardians” was held in cities and regions where the branch outlets were located, which further expanded the “Love Public Welfare Map”. In 2017, the Bank’s investment in public welfare amounted to RMB11.3493 million, increased the public charity programs to 271, and carried out 1,008 times of volunteers’ activities.

Secondly, the Company actively explored into the employee growth path, and helped the employees achieve all-round development. The Company persisted in the corporate culture philosophy of “humanity care”, safeguarded the legitimate rights and interest of employees, created favorable working conditions for employees, and provided competitive incentive mechanism and recruitment mechanism; improved the training system, cultivated the talent team, built up the smart cloud learning platform of Zheyin University, and carried out the training programs of “Sailing” Program, “Good Teacher Good Lecture” Contest, “Dream Camp” on-campus recruitment of new employees, etc.. In 2017, the total input in trainings amounted to RMB43.253 million, with 2165 sessions of trainings offered and the number of trainees up to 166,231; emphasized on corporate culture construction and balance between employee’s work and life, organized rich and colorful recreational and sports activities such as skills competition themed with “developing skills with ingenuity”, “Grand Secretary” reading activity, “Dream Speaker”, etc., to create a positive and harmonious home culture atmosphere.

(XXV) MISCELLANEOUS

- (1) As of the date of this report, the Company was not aware that any Shareholders had waived or agreed to waive any dividend arrangement.
- (2) As of the date of this report, none of the Directors waived or agreed to waive the related remuneration arrangements.
- (3) During the reporting period, there are no collateral and pledges of significant assets of the Company.

By Order of the Board
Shen Renkang
Chairman



Report of the Board of Supervisors

(I) LEGAL OPERATION

Our Company operated in accordance with law, and our decision-making procedure was compliant with the relevant provisions in the Company Law of the People's Republic of China (《中華人民共和國公司法》), the Commercial Banking Law of the People's Republic of China (《中華人民共和國商業銀行法》) and the Articles of Association of the Company. The directors, president and other senior management did not violate any laws and regulations or behave against the interests of our Company when they performed duties.

(II) TRUTHFULNESS OF FINANCIAL STATEMENTS

The 2017 annual financial report of our Company truthfully reflected the financial position and the operating results of the Company during the reporting period, and had been audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, who had issued standard auditing reports without qualified opinion.

(III) ACQUISITION AND SALE OF ASSETS

No insider trading or behavior harming the interests of some Shareholders was found in the major acquisitions of the Company.

(IV) CONNECTED TRANSACTIONS

The connected transactions of our Company were fair and reasonable and were in compliance with national laws and regulations and the Articles of Association of our Company, and no behavior was found that had harmed the interests of our Company.

(V) INTERNAL CONTROL SYSTEM

During the reporting period, the Company established and implemented relatively complete, reasonable and effective internal control system, and no major defect was found in the internal control or its implementation.

(VI) IMPLEMENTATION OF RESOLUTIONS PASSED AT SHAREHOLDERS' GENERAL MEETINGS

The Board of Supervisors had no objection to the reports or proposals submitted by the Board of Directors to the Shareholders' general meeting. It supervised the implementation of resolutions passed at the Shareholders' general meetings and was of the opinion that the Board of Directors was able to implement the relevant resolutions earnestly.

Significant Events

(I) MATERIAL LITIGATIONS AND ARBITRATIONS

The Company was involved in certain legal proceedings/arbitrations in the ordinary course of business. Most of these litigations/arbitrations are filed by the Company in order to recover non-performing loans and include litigations/arbitrations because of other disputes. As of December 31, 2017, there were nineteen pending litigations/arbitrations (excluding actions of opposition to execution) to which the Company was a defendant involving an amount of RMB11.60 million. The Company expects that such pending litigations will not materially and adversely affect the Company's business, financial position or operating results.

(II) MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. SIGNIFICANT EVENTS RELATING TO CUSTODY, CONTRACTING AND LEASING

During the reporting period, none of the material contracts signed by the Company involved holding in custody, contracting or leasing any assets of other companies or vice versa beyond the normal business scope of a bank.

2. SIGNIFICANT GUARANTEES

Guarantee business is an ordinary business of the Company. During the reporting period, save for the financial guarantee business carried out by the Company within the business scope approved by the PBOC and the CBIRC, there were no other significant guarantees required to be disclosed.

(III) MATERIAL PURCHASE, SALE OR DISPOSAL OF ASSETS AND CORPORATE MERGERS

The Company did not have any material purchase, sale or disposal of assets, or corporate mergers during the reporting period.

(IV) STOCK INCENTIVE PLAN

The Company did not implement a stock incentive plan during the reporting period.

(V) EMPLOYEE STOCK OWNERSHIP SCHEME

The Company did not implement an employee stock ownership scheme during the reporting period.

(VI) DISCIPLINARY ACTIONS IMPOSED ON THE COMPANY OR ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND SHAREHOLDERS HOLDING 5% OR MORE SHARES IN THE COMPANY

No significant administrative penalty was imposed and no notice of criticism was circulated by any regulatory authority upon the Company or the Board of Directors and the Directors, Board of Supervisors, the Supervisors and senior management of the Company and Shareholders holding 5% or more shares during the reporting period.

(VII) REVIEW OF ANNUAL RESULTS

PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have audited the financial statements of the Company prepared in accordance with the Chinese Accounting Standards and the International Financial Reporting Standards respectively, and issued standard unqualified auditing reports. The Board of Directors and the Audit Committee have reviewed the results and financial report of the Company for the year ended December 31, 2017.



Significant Events

(VIII) ANNUAL GENERAL MEETING

For the convening of its 2017 annual general meeting of the Company, the Company will make further announcement.

(IX) PUBLISHING THE ANNUAL REPORT

The English and Chinese version of the annual report prepared by the Company in accordance with IFRSs and Hong Kong Listing Rules will be available on the website of Hong Kong Stock Exchange and the Company's website.

(X) SUBSEQUENT EVENTS

On March 23, 2018, the Company entered into an placing agreement (the "Placing Agreement") with three placing agents (the "Placing Agents"), pursuant to which, the Placing Agents have agreed to act as the placing agents of the Company and to use their best endeavour to procure the placement of 759,000,000 new H Shares (the "Placing Shares") to no less than six placees at the placing price of HK\$4.80 per H Share (the "Placing").

The Placing Shares represent approximately 20.00% and 4.23%, respectively, of the total existing issued H Shares and the total existing issued share capital of the Company as at the date of the Placing Agreement, and approximately 16.67% and 4.05%, respectively, of the total issued H Shares and the total issued share capital of the Company as enlarged by the allotment and issue of the Placing Shares.

The aggregate nominal value of the Placing Shares is RMB759,000,000 (equivalent to approximately HK\$941,442,056, at the exchange rate of RMB1=HK\$1.240372). The placing was completed on March 29, 2018. The aggregate gross proceeds from the Placing are approximately HK\$3,643.20 million. The Company intends to use the net proceeds from the Placing to replenish the core tier-one capital. Please refer to the announcements of the Company dated March 23, 2018 and March 29, 2018 for further details.

Independent Auditor's Report

To the Shareholders of China Zheshang Bank Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audit

The consolidated financial statements of China Zheshang Bank Co., Ltd. (the "Bank") and its subsidiary (the "Group") set out on pages 135 to 238, which comprise:

- the consolidated statement of financial position as at December 31, 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 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") 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"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Independent Auditor's Report

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.

Key audit matters identified in our audit are summarised as follows:

- Impairment allowance of loans and advances to customers and debt instruments classified as receivables and disclosure of estimated impact upon initial application of International Financial Reporting Standard 9
- Consolidation assessment and disclosure of structured entities

Key Audit Matter

How our audit addressed the Key Audit Matter

Impairment allowance of loans and advances to customers and debt instruments classified as receivables and disclosure of estimated impact upon initial application of International Financial Reporting Standard 9

Please refer to Notes 18 and 19 to the consolidated financial statements.

As of December 31, 2017, the aggregated net balances of loans and advances to customers and debt instruments classified as receivables of the Group amounted to approximately RMB 649.8 billion and 343.2 billion respectively, as a total representing 65% of total assets. The aggregated allowance for impairment losses for loans and advances to customers and debt instruments classified as receivables of the Group were RMB23.1 billion and 4.0 billion respectively.

We evaluated the design and tested the Group's key controls over impairment calculation for loans and advances to customers and debt instruments classified as receivables. These controls include timely identification of loans and advances to customers and debt instruments classified as receivables where impairment were assessed on individual basis, and approval of key model, data, assumptions and parameters of impairment allowance for loans and advances to customers and debt instruments classified as receivables whose impairment were made on collective basis.

We also performed following substantive procedures:

Individual assessed impairment:

Where impairment was assessed on an individual basis, we examined, using sampling method, loans and advances to customers and debt instruments classified as receivables which had not been identified by the Group as impaired, especially the overdue but not impaired loans and those loans in higher risk industries, whether the loss events had been identified timely and formed our judgement as to whether that was appropriate by obtaining external evidence in respect of the relevant counter parties. Where objective evidence of impairment had been identified, we assessed the assumptions, calculation and forecasts of future cash flows prepared by the Group on sampling basis.

Independent Auditor's Report

Key Audit Matter

The Group first assesses whether objective evidence of impairment exists for the loans and advances to customers and debt instruments classified as receivables that are individually significant. Loans and advances to customers and debt instruments classified as receivables that were not identified impaired through individual assessment or not individually significant were included in a group of assets with similar credit risk characteristics and collectively assessed for impairment.

Our key audit focuses include: individual assessment of the future cash flow forecasts, selection of key models, data, assumptions and parameters in collective assessment.

The assessment of impairment involved significant estimates and judgements of the Group and had significant financial impact on the financial statements.

Please refer to Note 2.1.2(b) to the financial statements.

International Financial Reporting Standard 9: Financial Instruments ("IFRS 9" or "the standard") took effect on 1 January 2018. The Group estimated that the main impact of application of IFRS 9 is application of the expected credit losses measurement models ("ECL models") in determining the impairment allowance of loans and advances to customers, debt instruments classified as receivables measured at amortized cost, and certain loan commitments and financial guarantee contracts.

How our audit addressed the Key Audit Matter

Collective assessed impairment:

Where impairment allowance was assessed on a collective basis, we assessed the impairment models used by the Group under current economic environment to reflect the credit risk in loans and advances to customers and debt instruments classified as receivables. We also assessed key data, assumptions and parameters used by the Group in its impairment model such as segmentation of the classification of rating, historical loss, loss identification period, adjustments for risks in specific industries, macro-economic environment.

Based on the work undertaken, we considered the Group's assessment on impairment of loans and advances to customers and debt instruments classified as receivables is supportable by available evidence.

For Expected Credit Losses ("ECL") under IFRS 9 estimated by management, we performed the following procedures:

Obtained an understanding of the Group's authorizing and approval of methodology for ECL model and estimated results.

Obtained an understanding of methodology for ECL models and development processes, through review of documentation and discussion with management and credit modelling specialists. With the involvement of our credit loss and modelling specialists, we assessed the reasonableness of assumptions and judgement made by management on model adoption and parameters selection;

Examined the key data inputs to the ECL models on a sample basis to assess their accuracy and completeness.

Independent Auditor's Report

Key Audit Matter

IFRS 9 requires the development of new impairment assessment model in accordance with the principle of expected credit loss, and apply ECL models for determining the impairment allowance of loans and advances to customers, debt instruments classified as receivables measured at amortized cost, and certain loan commitments and financial guarantee contracts, and it involves significant judgment, assumption and interpretation of the new standard. The newly established ECL models involves new data input from systems that have not previously been used to calculate loan impairment allowance under current standard.

The Group's estimation of the possible impact upon initial application of IFRS 9 is a highly complex process and involves significant management judgment and interpretation, and accordingly, we included this as a key audit matter.

Consolidation assessment and disclosure of structured entities

Please refer to Note 35 to the financial statements.

Primary structured entities the Group has managed were wealth management products. Primary structured entities the Group has invested in were trust and asset management plans. The Group assesses its control over these structured entities when determining whether to consolidate them.

How our audit addressed the Key Audit Matter

We performed following procedures on the Group's assessment and disclosures of structured entities:

We understood, assessed and tested the Group's internal business control procedures over structured entities. We also performed following substantive procedures;

Independent Auditor's Report

Key Audit Matter

Our focuses were on the following key aspects of management's assessment:

1. The reasonableness of the Group's consolidation assessment according to its analysis of the Group's power over the structured entities, its variable returns from the structured entities, and whether the Group uses its power over the structured entities to affect the returns.
2. Whether the Group disclosed sufficiently and adequately in the financial statements.

Considering the significant balance regarding to the structured entities and significant judgments the Group made to assess whether the Group has control of the structured entities, it was identified to be a key area of audit focus.

How our audit addressed the Key Audit Matter

To assess whether the Group should consolidate the structured entities, we understood the objective and the designation of transaction structure. We examined the source data used by the Group in the control analysis, reviewed related contracts through sampling tests and assessed whether the Group had power over structured entities and had exposure to variable returns from structured entities (such as management fees and direct investments), and also recalculated variable returns according to contract terms. We also understood and examined whether the Group provided financial or other support to the structured entities by sampling.

Regarding structured entities managed by the Group, we assessed factors management considered when assessing whether the Group was the principle or an agency through sampling tests, including, among other things, the scope of the Group's decision-making authority, the substantive rights held by other parties, the remuneration to which the Group was entitled as the assets manager for providing management services, and the risk exposure to variable returns from any other arrangements, etc.

We examined whether the disclosures related to structured entities was sufficient and adequate.

Based on the procedures we performed, we considered the consolidation assessment made by the Group was supported by available evidence and the disclosures were appropriate.

Independent Auditor's Report

OTHER INFORMATION

The directors of the Group are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

Audit Committee is responsible for overseeing the Group's financial reporting process.


Independent Auditor's Report

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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



Independent Auditor's Report

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

We also provide 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 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 Mr. Cheng Sin Bun, Benson.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, March 26, 2018

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Year ended December 31,	
		2017	2016
Interest income	4	62,582,288	54,676,458
Interest expense	4	(38,191,182)	(29,447,905)
Net interest income		24,391,106	25,228,553
Fee and commission income	5	8,416,320	7,666,105
Fee and commission expense	5	(402,915)	(191,018)
Net fee and commission income		8,013,405	7,475,087
Net trading gains	6	456,020	10,134
Net gains on financial investments	7	905,390	725,339
Other operating income	8	498,228	214,229
Operating income		34,264,149	33,653,342
Operating expenses	9	(11,183,160)	(9,983,772)
Impairment losses on assets	11	(9,374,231)	(10,278,011)
Operating profit		13,706,758	13,391,559
Profit before income tax		13,706,758	13,391,559
Income tax expense	12	(2,733,891)	(3,238,411)
Net profit		10,972,867	10,153,148
Net profit attributable to:			
Shareholders of the Bank		10,949,749	10,153,148
Non-controlling interests		23,118	–
		10,972,867	10,153,148
Basic and diluted earnings per share for profit attributable to shareholders of the Bank (in RMB yuan)	13	0.57	0.59

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

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

	Year ended December 31,	
	2017	2016
Net profit	10,972,867	10,153,148
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on available-for-sale financial assets	(1,671,119)	(1,678,568)
Related income tax impact	417,780	419,642
Total other comprehensive income, net of tax	(1,253,339)	(1,258,926)
Total comprehensive income for the year	9,719,528	8,894,222
Total comprehensive income attributable to:		
Shareholders of the Bank	9,696,410	8,894,222
Non-controlling interests	23,118	–
	9,719,528	8,894,222

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

Consolidated Statement of Financial Position

As at December 31, 2017

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

	Note	December 31, 2017	December 31, 2016
ASSETS			
Cash and balances with central bank	14	154,091,440	124,269,106
Precious metal		12,382,513	3,952,824
Due from banks and other financial institutions	15	71,432,438	98,442,129
Financial assets at fair value through profit or loss	16	46,344,516	23,131,819
Derivative financial assets	17	4,554,086	4,780,282
Loans and advances to customers	18	649,816,717	443,668,657
Financial investments	19		
– Available-for-sale		127,898,959	61,466,941
– Held-to-maturity		91,562,790	41,532,932
– Debt instruments classified as receivables		343,222,781	537,036,109
Property, plant and equipment	21	6,602,703	3,045,701
Deferred income tax assets	22	7,366,808	4,601,026
Other assets	23	21,476,351	8,926,993
Total assets		1,536,752,102	1,354,854,519
LIABILITIES			
Due to banks and other financial institutions	24	356,805,618	394,108,821
Financial liabilities at fair value through profit or loss	25	5,615,590	13,875,609
Derivative financial liabilities	17	5,297,863	4,126,534
Customer deposits	26	860,619,457	736,243,698
Income tax payable		2,891,891	2,560,351
Other liabilities	28	25,281,946	21,868,878
Debt securities issued	27	190,551,983	114,595,250
Total liabilities		1,447,064,348	1,287,379,141

Consolidated Statement of Financial Position

	Note	December 31, 2017	December 31, 2016
EQUITY			
Share capital	29	17,959,697	17,959,697
Other equity instruments	30	14,957,664	–
Capital reserve	29	19,974,808	19,990,020
Surplus reserve	31	4,882,975	3,790,406
Statutory general reserve	31	17,243,730	13,242,456
Investment revaluation reserve	32	(1,553,817)	(300,478)
Retained earnings		14,729,579	12,793,277
Equity attributable to shareholders of the Bank		88,194,636	67,475,378
Non-controlling interests	34	1,493,118	–
Total equity		89,687,754	67,475,378
Total liabilities and equity		1,536,752,102	1,354,854,519

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

The consolidated financial statements were approved by the Board of Directors on March 26, 2018 and were signed on its behalf by:

Shen Renkang

Legal Representative,
Chairman of Board

Liu Xiaochun

Vice Chairman of Board,
President

Consolidated Statement of Changes in Equity

For the year ended December 31, 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

	Equity attributable to shareholders of the Bank							Non-Controlling interests	Total
	Share capital (Note 29)	Other equity instrument (Note 30)	Capital reserve (Note 29)	Surplus reserve (Note 31)	Statutory general reserve (Note 31)	Investment revaluation reserve (Note 32)	Retained earnings		
Balance at January 1, 2017	17,959,697	-	19,990,020	3,790,406	13,242,456	(300,478)	12,793,277	-	67,475,378
Net profit for the year	-	-	-	-	-	-	10,949,749	23,118	10,972,867
Other comprehensive income for the period	-	-	-	-	-	(1,253,339)	-	-	(1,253,339)
Total comprehensive income	-	-	-	-	-	(1,253,339)	10,949,749	23,118	9,719,528
Contribution of non-controlling shareholders	-	-	-	-	-	-	-	1,470,000	1,470,000
Other equity instruments issued	-	14,957,664	(15,212)	-	-	-	-	-	14,942,452
Appropriation to statutory surplus reserve	-	-	-	1,092,569	-	-	(1,092,569)	-	-
Appropriation to statutory general reserve	-	-	-	-	4,001,274	-	(4,001,274)	-	-
Cash dividend	-	-	-	-	-	-	(3,919,604)	-	(3,919,604)
Balance at December 31, 2017	17,959,697	14,957,664	19,974,808	4,882,975	17,243,730	(1,553,817)	14,729,579	1,493,118	89,687,754
Balance at January 1, 2016	14,509,697	-	12,181,167	2,775,091	8,241,258	958,448	10,991,403	-	49,657,064
Net profit for the year	-	-	-	-	-	-	10,153,148	-	10,153,148
Other comprehensive income for the period	-	-	-	-	-	(1,258,926)	-	-	(1,258,926)
Total comprehensive income	-	-	-	-	-	(1,258,926)	10,153,148	-	8,894,222
Issuance of new shares	3,450,000	-	7,808,853	-	-	-	-	-	11,258,853
Appropriation to statutory surplus reserve	-	-	-	1,015,315	-	-	(1,015,315)	-	-
Appropriation to statutory general reserve	-	-	-	-	5,001,198	-	(5,001,198)	-	-
Cash dividend	-	-	-	-	-	-	(2,334,761)	-	(2,334,761)
Balance at December 31, 2016	17,959,697	-	19,990,020	3,790,406	13,242,456	(300,478)	12,793,277	-	67,475,378

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

Consolidated Statements of Cash Flows

For the year ended December 31, 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Year ended December 31,	
		2017	2016
Cash flows from operating activities:			
Profit before income tax		13,706,758	13,391,559
Adjustments:			
Depreciation and amortisation	9	363,669	236,275
Impairment losses on loans	11	8,717,555	8,418,854
Impairment losses on other assets	11	656,676	1,859,157
Net losses on de-recognition of fixed assets		(49,688)	–
Net gains on de-recognition of financial investments		(905,390)	(725,339)
Fair value changes in financial assets at fair value through profit or loss and derivatives		1,851,747	76,908
Interest income from financial investments		(29,530,229)	(27,955,029)
Interest expense from debt securities issued	4	6,414,554	3,506,788
Net change in operating assets and operating liabilities:			
Net increase in restricted deposit balances with central bank		(12,880,433)	(30,802,358)
Net decrease in due from banks and other financial institutions		18,480,206	3,530,329
Net increase in financial assets at fair value through profit or loss		(23,795,723)	(12,973,336)
Net increase in loans and advances to customers		(129,796,740)	(116,935,528)
Net increase in other operating assets		(16,045,633)	(7,077,505)
Net (decrease)/increase in due to banks and other financial institutions		(37,303,203)	39,451,464
Net increase in customer deposits		124,375,759	220,217,402
Net (decrease)/increase in other operating liabilities		(11,316,542)	15,969,216
Cash (used in)/generated from operating activities before tax		(87,056,657)	110,188,857
Income tax paid		(5,372,092)	(4,348,907)
Net cash (used in)/generated from operating activities		(92,428,749)	105,839,950

Consolidated Statements of Cash Flows

	Note	Year ended December 31,	
		2017	2016
Cash flows from investing activities:			
Dividends received		800	650
Purchase of property and equipment, intangible assets and other long-term assets		(4,117,494)	(946,255)
Interest received from financial investments		32,869,989	27,955,029
Proceeds from disposal and redemption of financial investments		1,567,827,383	749,328,379
Purchase of financial investments		(1,577,946,451)	(882,158,244)
Net cash generated from/(used in) investing activities		18,634,227	(105,820,441)
Cash flows from financing activities:			
Proceeds from issuance of ordinary shares		–	11,258,853
Proceeds from issuance of preferred shares		14,942,452	–
Capital contribution by non-controlling interests of a subsidiary		1,470,000	–
Proceeds from issuance of debt securities		204,746,733	102,537,396
Cash paid for repayment of debt securities		(128,790,000)	(77,878,182)
Interest paid on debt securities issued		(6,414,554)	(2,887,782)
Dividends paid on ordinary shares		(3,065,339)	(2,353,092)
Net cash generated from financing activities:		82,889,292	30,677,193
Effect of exchange rate changes on cash and cash equivalents		(682,354)	485,316
Net increase in cash and cash equivalents		8,412,416	31,182,018
Cash and cash equivalents at beginning of the year		50,177,326	18,995,308
Cash and cash equivalents at end of the year	39	58,589,742	50,177,326
Net cash flows from operating activities including:			
Interest received		32,998,471	25,876,439
Interest paid		(30,209,054)	(24,724,668)

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

Notes to Consolidated Financial Statements

For the year ended December 31, 2017
(All amounts expressed in thousands of RMB unless otherwise stated)

1 GENERAL INFORMATION

China Zheshang Bank Co., Ltd. (the “Bank”) is a national joint-stock commercial bank and was established in Zhejiang Province, the People’s Republic of China (the “PRC”) on July 26, 2004 with the approval from China Banking Regulatory Commission (“CBRC”). The Bank was listed on The Stock Exchange of Hong Kong Limited on March 30, 2016.

As at December 31, 2017, the registered capital of the Bank is Renminbi (“RMB”) 17,959,697 thousand.

As at December 31, 2017, the Bank has established 213 branch outlets in 15 provinces (municipalities) and Hong Kong in China, including 50 branches (23 of them are tier-one branches), one branch-level specialized institution and 162 sub-branches. As at December 31, 2017, the Bank has one subsidiary (Note 20). The principal activities of the Bank and its subsidiary (collectively referred to as the “Group”) include corporate and personal deposits, loans and advances, clearing and settlement service, treasury business, finance leasing and other banking service as approved by the CBRC.

The consolidated financial statements were approved by the Bank’s Board of Directors on March 26, 2018.

2 PRINCIPAL ACCOUNTING POLICIES

This section provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements.

2.1 Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (“IFRSs”), listing rules of Hong Kong Exchange Stock and requirements of the Hong Kong Companies Ordinance Cap. 622.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, precious metal and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss which are carried at fair value.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

2.1.1 Consistency

These financial statements have been prepared on a going concern basis.

2.1.2 Amendments to accounting policies and disclosures

(a) *New and revised IFRSs effective by January 1, 2017 applied by the Group*

Amendments to IAS 7	Statement of cash flows
Amendments to IAS 12	Income taxes
Amendments to IFRS 12	IASB Annual Improvements 2014-2016 cycle

The application of these new and revised IFRSs do not have a material impact to the Group.

The Group applied all relevant effective IFRSs and IASs in the preparation of the financial statements.

(b) *Standards and amendments that have been issued but not yet effective and have not been adopted by the Group*

Standards and amendments that have been issued but not yet effective and have not been adopted by the Group as of December 31, 2017 are as follows:

		Effective for annual periods beginning on or after
Amendments to IAS 28	IASB Annual Improvements 2014-2016 cycle	January 1, 2018
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
Amendments to IAS 40	Transfers of investment property	January 1, 2018
IFRIC 22	Foreign currency transactions and advance consideration	January 1, 2018
Amendments to IFRS 4	Applying IFRS 9 Financial instruments	January 1, 2018
Amendments to IFRS 2	Classification and measurement of share-based payment transactions	January 1, 2018
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty Over Income Tax Treatments	January 1, 2019

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

2.1.2 Amendments to accounting policies and disclosures (continued)

(b) *Standards and amendments that have been issued but not yet effective and have not been adopted by the Group* (continued)

IFRS 9

IFRS 9, published in July 2014 and effective for annual periods beginning on or after January 1, 2018, will replace the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. The principle and guidance on recognition and de-recognition of financial instruments in IAS 39 remains unchanged.

IFRS 9 will change the way the Group classifies and measures its financial assets. IAS 39 measurement categories “financial assets at fair value through profit or loss”, “held-to-maturity investments”, “loans and receivables” and “available-for-sale financial assets” will be replaced by three categories in IFRS 9, which are “fair value through profit or loss”, “amortized cost”, “fair value through other comprehensive income”. The approach for classifying financial assets will also change. Under IAS 39 the characteristics of financial assets are analyzed for any embedded derivatives and whether those have to be separated from the host contract (bifurcation of hybrid instruments). IFRS 9 uses a different approach that does not involve the bifurcation of financial assets. Instead, financial assets are classified in their entirety into a measurement category. This classification of financial assets under IFRS 9 will require the Group to consider the business model and the contractual cash flow characteristics of financial assets to determine classification and subsequent measurement.

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

2.1.2 Amendments to accounting policies and disclosures (continued)

(b) Standards and amendments that have been issued but not yet effective and have not been adopted by the Group (continued)

IFRS 9 (continued)

For financial assets that will be classified as “amortized cost” or “fair value through other comprehensive income”, the Group will be required to apply an expected credit loss impairment model that will apply to both those measurement categories as well as other exposures to credit risk such as loan commitments and financial guarantees. This impairment model will replace the different impairment models in IAS 39 as well as the requirements in IAS 37 that related to some types of credit risk exposures (such as loan commitments and financial guarantees). The main differences between the new expected credit loss impairment model compared to the incurred loss model in IAS 39 are that the expected credit loss model uses more forward-looking information and that it does not involve the existence of an objective evidence of impairment until which credit losses remain unrecognised. Consequently, financial assets in the scope of the new impairment model will require a loss allowance to be recognised throughout their lives and the relative change of credit risk since initial recognition of the financial asset drives whether that loss allowance is equal to 12-month expected credit losses or lifetime expected credit losses. Lifetime expected credit losses represent all credit losses over the remaining life of a financial asset on a probability-weighted basis. 12-month expected credit losses are a subset of the lifetime expected credit losses and represent the losses expected to arise from default events within the next 12 months after the reporting date.

IFRS 9 will have an impact on the Group’s financial statements. To cope proactively, the Group has set up a specialized project team to carry out preparatory work in phases. The Group will establish new financial asset classification standards, revise the financial asset impairment models, revise the financial asset valuation methods and determine related disclosures in the financial statements in accordance with IFRS 9. The Group will also adjust the internal processes and policies synchronously, and carry out the related system transformations and upgrades to meet the implementation requirements of IFRS 9. The Group completed the overall implementation preparation at the end of 2017. The Group estimates that the transitional impact will not reduce the net assets of the Group on January 1, 2018 by more than 1%.

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

2.1.2 Amendments to accounting policies and disclosures (continued)

(b) *Standards and amendments that have been issued but not yet effective and have not been adopted by the Group* (continued)

IFRS 15

IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an “earnings processes” to an “asset-liability” approach based on transfer of control. IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.

Amendments to IAS 40

These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

IFRIC 22

This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

Amendments to IFRS 4

These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39.

Amendments to IFRS 2

This amendment clarifies the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.1 Basis of presentation (continued)

2.1.2 Amendments to accounting policies and disclosures (continued)

(b) *Standards and amendments that have been issued but not yet effective and have not been adopted by the Group* (continued)

IFRS 16

Under IAS 17 lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. The new standard will impact both the balance sheet and related ratios (capital adequacy ratio and leverage ratio), but the impact will not be material. As of December 31, 2017, the amounts of operating leasing commitment was RMB4.0 billion as disclosed. If the amounts were recognised on statement of financial position as asset and liability, it has immaterial impact on total assets and liabilities. The impacts on capital adequacy ratio and leverage ratio are also immaterial.

IFRIC 23

IFRIC 23 “Uncertainty Over Income Tax Treatments” adds to the requirements in IAS 12 by specifying how the effects of uncertainty in accounting for income taxes should be reflected. The effective date is January 1, 2019.

Except the above mentioned impact of IFRS 9, the Group expects adoption of the above new IFRS and amendments to IFRS issued but not yet effective will not have a material effect on the Group’s operating results, financial position or other comprehensive income.

2.2 Financial year

The financial year starts on January 1 and ends on December, 31.

2.3 Functional currency

The functional currency of the Group is RMB.

2.4 Consolidated Financial Statement

The consolidated financial statements include the financial statements of the Bank and all its subsidiaries. A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Bank and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Bank. All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries’ equity, net profits and total comprehensive income for the period not attributable to the Bank are recognised as non-controlling interest and total comprehensive income attributed to non-controlling interest and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively.

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.4 Consolidated Financial Statement (continued)

Unrealised profits or losses resulting from the Company selling assets to its subsidiaries are offset against the parent company's net profits. Unrealised profits or losses resulting from the subsidiaries selling assets to the Company are offset against net profits attributable to shareholders of the parent company and non-controlling interests based on the distribution percentage. Unrealised profits or losses resulting from transactions among subsidiaries are offset among net profits attributable to shareholders of the parent company and non-controlling interest based on parent company's share percentage in the selling subsidiary.

If the Group, as a reporting entity, and the Company or subsidiaries, as separate reporting entities, have different views on the accounting treatment of the same transaction, the transaction should be adjusted and accounted for based on the Group's perspective. The loss distributed to non-controlling shareholders of subsidiaries overtook the shares in early shareholders' equity. The rest of them still decrease the non-controlling shareholders' equity.

2.5 Interest income and expense

Interest income and expense for interest-bearing financial instruments is recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortized cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the carrying amount of the financial instrument. 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 that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

2.6 Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that are provided over a period of time, fee and commission income are recognised in the related accounting periods. For other services, fee and commission income are recognised when the transactions are completed.

2.7 Dividend income

Dividends are recognised when the right to receive payment is established.

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.8 Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for services rendered by employees or for termination of the employment contracts. These benefits include short-term employee benefits, post-employment benefits.

(a) Short-term employee benefits

In the reporting period in which an employee has rendered services, the Group recognises the short term employee benefits payable for those services as a liability with a corresponding increase in the expenses in profit or loss. Short-term employee benefits include salaries, bonuses, allowance and subsidies, staff welfare, medical insurance, employment injury insurance, maternity insurance, housing funds as well as labor union fees and staff education expenses.

(b) Post-employment benefits

The Group's post-employment benefits are primarily the payments for basic pensions and unemployment insurance related to government mandated social welfare programs, as well as the annuity scheme established. All these post-employment benefits are defined contribution plans, under which, the Group makes fixed contributions into a separate fund and will have no legal or constructive obligation to make further contributions.

2.9 Income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the end of each reporting period, and any adjustment to tax payable in respect of previous periods. Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax also arises from unused tax losses and unused tax credits. A deferred tax asset is recognised to the extent that it is probable that future taxable income will be available against which the asset can be utilized.

Current income tax and movements in deferred tax balances are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively. At the end of each reporting period, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled according to the requirements of tax laws. The Group also considers the possibility of realization and the settlement of deferred tax assets and deferred tax liabilities in the calculation.

Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Group has the legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. Otherwise, the balances of deferred tax assets and deferred tax liabilities, and movements therein, are presented separately from each other and are not offset.

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.10 Foreign currency translation

Monetary items denominated in foreign currency are translated into RMB with the closing rate as of the reporting date and exchange differences are recognised in the profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as of the date of initial recognition.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, such as cash, surplus reserve with the central bank, deposits or placements with banks and other financial institutions with original tenors less than 3 months.

2.12 Precious metals

Precious metals comprise gold and silver. All precious metals are related to the Group's trading activities, which are initially recognised at fair value, with changes in fair value arising from re-measurement recognised directly in the statement of profit or loss in the period in which they arise.

2.13 Financial instruments

Financial assets and liabilities are recognised in the statement of financial position and classified into one of the categories presented below. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, respectively, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised in profit or loss.

2.13.1 Financial assets

The Group's financial assets are classified into four categories – financial assets at fair value through profit or loss ('FVTPL'), held-to-maturity investments, available-for-sale financial assets and, loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.13 Financial instruments (continued)

2.13.1 Financial assets (continued)

(a) *Financial assets at fair value through profit or loss*

Financial assets at FVTPL have two subcategories – financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of sale in the near future; or
- it forms part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative instrument that is not designated and effective as a hedging instrument.

There are no financial assets designated at fair value through profit or loss at inception for the Group.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognised directly in the profit or loss in the period in which they arise.

(b) *Held-to-maturity financial investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment losses.

(c) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method.

Financial assets classified as loans and receivables primarily include balances with central bank, due from banks and other financial institutions, loans and advances to customers, and debt instruments classified as receivables.

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

Available-for-sale financial assets are non-derivatives that are either designated as such or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to the profit or loss.

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.13 Financial instruments (continued)

2.13.1 Financial assets (continued)

(e) Impairment of financial assets

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

For all other financial assets, the objective evidence of impairment could include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of significant financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets, although the decrease cannot yet be attributed to individual financial assets in the portfolio, including:
 - adverse changes in the payment status of borrowers in the portfolio; and
 - national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.13 Financial instruments (continued)

2.13.1 Financial assets (continued)

(f) *Impairment of financial assets carried at amortized cost*

For financial assets carried at amortized cost, an impairment loss is recognised in profit or loss when there is objective evidence that the assets are impaired. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For financial assets with floating interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a financial asset is considered uncollectible, it is written off against the allowance account after all necessary procedures have been performed and the loss amount has been determined. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the debtor's credit rating, the previously recognised impairment loss is reversed through the profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognised.

(g) *Impairment of financial assets classified as available-for-sale*

When a decline in the fair value of a financial asset classified as available-for-sale has been recognised directly in other comprehensive income and accumulated in the investment revaluation reserve, and there is objective evidence that asset is impaired, the cumulative losses previously recognised in other comprehensive income are reclassified to the profit or loss in the period in which the impairment takes place.

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.13 Financial instruments (continued)

2.13.2 Financial liabilities

The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities carried at amortized cost.

(a) *Financial liabilities at fair value through profit or loss*

Financial liabilities at FVTPL have two subcategories, including financial liabilities held for trading and those designated at FVTPL on initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments.

Financial liabilities at FVTPL are stated at fair value, with changes in fair value arising on re-measurement recognised directly in profit or loss in the period in which they arise.

(b) *Other financial liabilities*

Other financial liabilities are measured at amortized cost, using the effective interest method.

2.13.3 Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.13 Financial instruments (continued)

2.13.4 Determination of fair value

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.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

2.13.5 De-recognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and, where applicable, the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the related obligation is discharged, is cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.13 Financial instruments (continued)

2.13.6 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when both of the following conditions are satisfied: (i) the Group has a legal right to set off the recognised amounts and the legal right is currently enforceable; and (ii) the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

2.13.7 Resale and repurchase agreements

Financial assets transferred as collateral in connection with standard repurchase agreements, involving fixed repurchase dates and prices are not derecognised. They continue to be recorded as “investments classified as held-to-maturity investments”, “available-for-sale financial assets”, “debt instruments classified as receivables” or “loans and advances to customers” as appropriate. The corresponding liability is included in “due to banks and other financial institutions”.

Consideration paid for financial assets held under agreements to resell are recorded in “due from banks and other financial institutions”.

Interest expense or income in profit or loss over the term of the agreements uses the effective interest method.

2.14 Property, plant and equipment

Property, plant and equipment are assets held by the Group for the conduct of business and are expected to be used for more than one year. Construction in progress is the property and equipment under construction, which is transferred to property, plant and equipment when ready for its intended use.

(a) Cost

Property, plant and equipment are initially recognised at cost. The cost of a purchased property, plant and equipment comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use. The cost of a self-constructed property, plant and equipment comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use.

Subsequent costs, including the cost of replacing part of an item of property, plant and equipment, are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. Expenditures relating to ordinary maintenance of property, plant and equipment are recognised in profit or loss.

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.14 Property, plant and equipment (Continued)

(b) Depreciation and impairment

Depreciation is calculated based on the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives, and then charged to the profit or loss. Impaired property, plant and equipment are depreciated net of accumulated impairment losses. No depreciation is provided on construction in progress.

The estimated useful lives, estimated residual values rates and depreciation rates of respective property, plant and equipment are as follows:

Type of assets	Estimated useful lives	Estimated residual value rates	Depreciation rate
Buildings	30 years	5%	3.17%
Self-owned buildings improvements	10 years	5%	9.50%
Equipment	7 years	5%	13.57%
Motor vehicles	5 years	5%	19.00%

The Group reviews the estimated useful lives and estimated residual values of property, plant and equipment and the depreciation method applied at least once a financial year.

Impairment losses on property, plant and equipment are accounted for in accordance with the accounting policies as set out in Note 2.17.

(c) Disposal

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the property, plant and equipment and are recognised in profit or loss on the date of retirement or disposal.

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.15 Land use rights

Land use rights are initially recognised at costs and amortized using the straight-line basis over the legal term of use through profit and loss. Impaired land use rights are amortized net of accumulated impairment losses.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 2.17.

2.16 Intangible assets

The intangible assets are initially recognised at cost. The cost less estimated residual values, if any, of the intangible assets is amortized on a straight-line basis over their useful lives, and charged to the profit or loss. Impaired intangible assets are amortized net of accumulated impairment losses.

Impairment losses on intangible assets are accounted for in accordance with the accounting policies as set out in Note 2.17.

2.17 Allowances for impairment losses on non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of the asset's fair value less costs to sell and the asset's present value of future cash flows.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss.

2.18 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.19 Leases

A finance lease is a lease that transfers in substance all the risks and rewards incident to ownership of an asset. An operating lease is a lease other than a finance lease.

As a lessee under operating leases, lease payments under an operating lease are recognised in profit or loss by a lessee on a straight-line basis over the lease term.

As a lessor under finance leases, At the lease commencement date, 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. Contingent rents are recorded into profit or loss of the period in which they actually arise. The differences between the finance lease receivables less the unearned finance income are presented in “other assets” on consolidated financial statements.

2.20 Dividend distribution

Ordinary share dividends are recognised as liabilities in the period in which they are approved by the Shareholders’ Annual General Meeting. Preference share dividend is recognised as a liability in the period in which they are approved by the Board of Directors.

2.21 Wealth management

The Group acts as a custodian, trustee and in other fiduciary capacities to safeguard assets for customers in accordance with custody agreements between the Group and securities investment funds, insurance companies, trust companies, and other institutions and individuals. The Group receives fees in return for its services provided under the custody agreements and does not have any interest in the economic risks and rewards related to assets under custody. Therefore, assets under custody are not recognised in the Group’s statement of financial position.

2.22 Entrusted loans

The Group conducts entrusted lending arrangements for its customers. Under the terms of entrusted loan arrangements, the Group grants loans to borrowers, as an intermediary, according to the instruction of its customers. The Group is responsible for the arrangement and collection of the entrusted loans and receives commission for the services rendered. As the Group does not assume the economic risks and rewards of the entrusted loans, they are not recognised as assets and liabilities of the Group.

2.23 Financial guarantee contracts

Financial guarantees are contracts that require the Group as the guarantor (the “issuer”) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs when a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group’s liabilities under such guarantees are measured at the higher of the initial amount less amortization of guarantee fees recognised in accordance with the revenue recognition policy, and the best estimate of the expenditure required to settle the guarantees. Any increase in the liability relating to guarantees is taken to the profit or loss.

Notes to Consolidated Financial Statements

2 PRINCIPAL ACCOUNTING POLICIES (continued)

2.24 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably measured, it will then be recognised as a provision.

2.25 Segment reporting

The Group determines the operating segments on the basis of the internal organizational structure, requirements of management and internal reporting system, and establishes the reporting segments on the basis of the operating segments and discloses the segment information.

The measurement of segment assets and liabilities, as well as segment revenue, expense and results is based on the Group's accounting policies. There is no difference between the accounting policies used in the preparation of the Group's financial statements and those used in preparing the operating segment information.

Segment revenue, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group continually evaluates the significant accounting estimates and key assumptions applied based on historical experience and other factors, including reasonable expectations of future events. The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting period are outlined below.

Notes to Consolidated Financial Statements

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES (continued)

3.1 Impairment allowances for loans and advances to customers and debt instruments classified as receivables

The Group regularly reviews its loans and advances to customers and debt instruments classified as receivables to assess impairment loss, unless known circumstances indicate that impairment may have occurred as of an interim date. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgment as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio before the decrease can be identified with loans and advances to customers and debt instruments classified as receivables in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in that portfolio (e.g. payment default), or national or local economic conditions that correlate with defaults on the portfolio in the Group. The impairment loss for a loan and advance that is individually assessed for impairment is the difference between estimated discounted future cash flows and carrying amount. When loans and advances to customers and debt instruments classified as receivables are collectively assessed for impairment, Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss incurred.

3.2 Control over structured entity

Where the Group acts as an asset manager or investor of structured entities, the Group makes judgment on whether it is the principal or an agent to assess whether the Group controls the structured entities and should consolidate them. When performing this assessment, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services, the Group's exposure to variability of returns from other interests (e.g. direct investment) that it holds in the structured entities. The Group performs reassessment periodically.

3.3 Fair value measurement of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and option pricing models. To the extent practicable, market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, should be made maximum use of when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the fair value measurement of financial instruments.

Notes to Consolidated Financial Statements

4 NET INTEREST INCOME

	Year ended December 31,	
	2017	2016
Interest income		
Balances with central bank	1,844,069	1,522,205
Due from banks and other financial institutions	2,404,936	2,282,799
Loans and advances to customers	27,430,722	21,262,865
Financial assets at fair value through profit or loss	1,112,510	664,322
Financial investments	29,790,051	28,944,267
Subtotal	62,582,288	54,676,458
Including: Interest income from impaired financial assets	53,588	56,518
Interest expense		
Due to banks and other financial institutions	(16,298,040)	(12,816,233)
Customer deposits	(15,478,588)	(13,124,884)
Debt securities issued	(6,414,554)	(3,506,788)
Subtotal	(38,191,182)	(29,447,905)
Net interest income	24,391,106	25,228,553

Notes to Consolidated Financial Statements

5 NET FEE AND COMMISSION INCOME

	Year ended December 31,	
	2017	2016
Fee and commission income		
Asset management business	5,513,087	5,416,548
Underwriting service	634,281	597,127
Credit commitment	406,989	446,021
Agency service	388,125	442,682
Custodian and other fiduciary service	498,962	192,334
Settlement business	451,867	158,351
Others	523,009	413,042
Total	8,416,320	7,666,105
Fee and commission expense	(402,915)	(191,018)
Net fee and commission income	8,013,405	7,475,087

6 NET TRADING GAINS

	Year ended December 31,	
	2017	2016
Funds investment	1,529,505	–
Trading financial instruments	(1,150,233)	(752,168)
Derivative financial instruments	(101,965)	638,106
Exchange differences	178,713	124,196
Total	456,020	10,134

Notes to Consolidated Financial Statements

7 NET GAINS ON FINANCIAL INVESTMENTS

	Year ended December 31,	
	2017	2016
Net gains arising from de-recognition of available-for-sale	201,291	337,562
Net gains arising from debt instruments classified as receivables	704,099	387,777
Total	905,390	725,339

8 OTHER OPERATING INCOME

	Year ended December 31,	
	2017	2016
Government grants	75,266	132,546
Gains on disposal of fixed assets	49,688	428
Operating lease income	1,039	–
Dividend income	800	650
Other miscellaneous income	371,435	80,605
Total	498,228	214,229

Notes to Consolidated Financial Statements

9 OPERATING EXPENSES

	Year ended December 31,	
	2017	2016
Staff costs (i)	6,644,637	5,962,976
General and administrative expenses	3,289,582	2,646,701
Tax and surcharges	232,461	658,446
Rental expenses	593,188	429,611
Depreciation of property, plant and equipment (Note 21)	223,244	135,488
Amortisation of long-term prepaid expenses	91,367	61,823
Amortisation of intangible assets (Note 23(ii))	33,007	26,841
Amortisation of land use rights (Note 23(ii))	16,051	12,123
Auditors' remuneration	5,160	5,780
Donations	4,861	5,229
Others	49,602	38,754
Total	11,183,160	9,983,772

(i) Staff costs

	Year ended December 31,	
	2017	2016
Salaries and bonuses	5,175,518	4,895,788
Pension costs-Defined contribution plans	593,384	373,049
Housing funds	225,592	183,057
Labor union fee and staff education expenses	146,119	134,323
Other social security and benefit costs	504,024	376,759
Total	6,644,637	5,962,976

Notes to Consolidated Financial Statements

10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS

(a) Details of the directors' and supervisors' emoluments are as follows:

Name	Year ended December 31, 2017					Total
	Fees	Salaries	Allowances and benefits	Discretionary bonuses	Contribution to pension schemes	
Executive Directors						
Shen Renkang	-	300	50	400	200	950
Liu Xiaochun	-	1,500	69	4,042	299	5,910
Zhang Luyun	-	270	50	360	216	896
Xu Renyan	-	1,200	68	3,522	179	4,969
Non-Executive Directors						
Wang Yibing	-	-	-	-	-	-
Wang Mingde	-	-	-	-	-	-
Shen Xiaojun	-	-	-	-	-	-
Gao Qinrong	-	-	-	-	-	-
Hu Tiangao	-	-	-	-	-	-
Lou Ting	-	-	-	-	-	-
Zhu Weiming	-	-	-	-	-	-
Independent Non-Executive Directors						
Jin Xuejun	300	-	-	-	-	300
Tong Benli	300	-	-	-	-	300
Yuan Fang	300	-	-	-	-	300
Dai Deming	300	-	-	-	-	300
Liu Pak Wai	300	-	-	-	-	300
Zheng Jindu	300	-	-	-	-	300
Supervisors						
Yu Jianqiang	-	1,200	63	2,707	211	4,181
Tao Xuegen	-	-	-	-	-	-
Zhou Yang	-	-	-	-	-	-
He Xudong (iii)	-	-	-	-	-	-
Zheng Jianming (iv)	-	-	-	-	-	-
Wang Chengliang (ii)(iv)	-	-	-	-	-	-
Dong Zhoufeng (i)(iv)	-	-	-	-	-	-
Ge Lixin (iv)	-	-	-	-	-	-
Zhang Rulong (iv)	-	-	-	-	-	-
Jiang Zhihua	300	-	-	-	-	300
Yuan Xiaoqiang	300	-	-	-	-	300
Huang Zuhui	300	-	-	-	-	300
Wang Jun	300	-	-	-	-	300
Cheng Huifang	300	-	-	-	-	300
Total	3,300	4,470	300	11,031	1,105	20,206

Notes to Consolidated Financial Statements

10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (continued)

(a) Details of the directors' and supervisors' emoluments are as follows

(continued):

Name	Year ended December 31, 2016					Total
	Fees	Salaries	Allowances and benefits	Discretionary bonuses	Contribution to pension schemes	
Executive Directors						
Shen Renkang	–	450	55	222	169	896
Liu Xiaochun	–	1,500	77	3,400	267	5,244
Zhang Luyun	–	405	55	113	185	758
Xu Renyan	–	1,200	75	3,312	230	4,817
Non-Executive Directors						
Wang Yibing	–	–	–	–	–	–
Wang Mingde	–	–	–	–	–	–
Shen Xiaojun	–	–	–	–	–	–
Gao Qinhong	–	–	–	–	–	–
Hu Tiangao	–	–	–	–	–	–
Lou Ting	–	–	–	–	–	–
Zhu Weiming	–	–	–	–	–	–
Wei Dongliang	–	–	–	–	–	–
Independent Non-Executive Directors						
Jin Xuejun	300	–	–	–	–	300
Tong Benli	300	–	–	–	–	300
Yuan Fang	300	–	–	–	–	300
Zheng Xinli	100	–	–	–	–	100
Dai Deming	300	–	–	–	–	300
Liu Pak Wai	300	–	–	–	–	300
Zheng Jindu	300	–	–	–	–	300
Supervisors						
Yu Jianqiang	–	1,500	3	2,014	159	3,676
Tao Xuegen	–	–	–	–	–	–
Zhou Yang	–	–	–	–	–	–
He Xudong	–	–	–	–	–	–
Huang Haibo	–	–	–	–	–	–
Zheng Jianming (iv)	–	–	–	–	–	–
Dong Zhoufeng (iv)	–	–	–	–	–	–
Ge Lixin (iv)	–	–	–	–	–	–
Zhang Rulong (iv)	–	–	–	–	–	–
Jiang Zhihua	300	–	–	–	–	300
Yuan Xiaoqiang	300	–	–	–	–	300
Huang Zuhui	300	–	–	–	–	300
Wang Jun	300	–	–	–	–	300
Cheng Huifang	175	–	–	–	–	175
Total	3,275	5,055	265	9,061	1,010	18,666

Notes to Consolidated Financial Statements

10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (continued)

(a) Details of the directors' and supervisors' emoluments are as follows

(continued):

- (i) Employee supervisors of the Bank, Mr. Dong Zhoufeng, resigned on May 27, 2017 for retirement and the resignation effected immediately.
- (ii) On May 27, 2017, the employee representatives' meeting of the Bank elected Mr. Wang Chengliang as an employee supervisor of the Bank. Supervisor of the Bank.
- (iii) Supervisor of the Bank, Mr. He Xudong, resigned on October 12, 2017 for work adjustments and the resignation effected immediately.
- (iv) Employee supervisors of the Bank receive remuneration as staff, and receive no remuneration as supervisors.
- (v) Directors and supervisors of the Bank receive only remuneration in respect of their services as directors and supervisors. No emoluments was paid to or receivable by directors and supervisors in respect of their other services in connection with the management of the affairs of the Bank or its subsidiary undertaking in any form.

(b) Five highest paid individuals

For the year ended December 31, 2017, the five highest paid individuals in the Bank including no director or supervisor (2016: no director or supervisor).

The rest of the five highest paid individuals for the year are as follows:

	Year ended December 31,	
	2017	2016
Salaries and allowances and benefits	13,266	15,411
Discretionary bonuses	42,786	32,960
Contribution to pension schemes	707	568
Total	56,759	48,939

The emoluments fell within the following bands:

	Number of Individuals	
	Year ended December 31,	
	2017	2016
RMB7,500,001 – RMB8,000,000	–	1
RMB8,000,001 – RMB8,500,000	–	1
RMB8,500,001 – RMB12,000,000	4	2
RMB12,000,001 – RMB17,000,000	1	1

Notes to Consolidated Financial Statements

10 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE HIGHEST PAID INDIVIDUALS (continued)

(b) Five highest paid individuals (continued)

No emoluments had been paid or payable by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year ended December 31, 2017, no non-cash benefits (share options, car, insurance premium, club membership, etc.) was paid to the directors or supervisors (2016: nil).

During the year ended December 31, 2017, no retirement benefit was paid to the directors or supervisors by a defined benefit pension plan operated by the Group (2016: nil).

During the year ended December 31, 2017, no termination benefits was paid to the directors or supervisors operated by the Group (2016: nil).

During the year ended December 31, 2017, no consideration was provided to former employers for making available directors' and supervisors' services by the Group (2016: nil).

During the year ended December 31, 2017, no loan, quasi-loan or other dealings was provided in favour of directors, controlled bodies corporate by or connected entities (2016: nil).

During the year ended December 31, 2017, no significant transactions, arrangements and contracts was in relation to the corporate in which a director of the Group had a material interest, whether directly or indirectly subsisted (2016: nil).

11 IMPAIRMENT LOSSES ON ASSETS

	Year ended December 31,	
	2017	2016
Loans and advances to customers (Note 18(b))		
– Collectively assessed	6,648,789	5,827,139
– Individually assessed	2,068,766	2,591,715
Debt instruments classified as receivables	500,743	1,856,673
Others	155,933	2,484
Total	9,374,231	10,278,011

Notes to Consolidated Financial Statements

12 INCOME TAX EXPENSE

	Year ended December 31,	
	2017	2016
Current income tax	5,081,893	5,314,524
Deferred income tax (Note 22)	(2,348,002)	(2,076,113)
Total	2,733,891	3,238,411

Current income tax is calculated based on the statutory rate of 25% of the taxable income of the Group for the respective periods.

The difference between the actual income tax charged in the profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended December 31,	
	2017	2016
Profit before income tax	13,706,758	13,391,559
Tax calculated at a tax rate of 25%	3,426,690	3,347,890
Tax effect arising from income not subject to tax (i)	(804,816)	(131,686)
Tax effect of expenses that are not deductible for tax purposes (ii)	112,017	22,207
Income tax expense	2,733,891	3,238,411

- (i) The income not subject to tax mainly represents interest income arising from treasury bonds and dividend income arising from funds investments, which is income tax free in accordance with the PRC tax regulations.
- (ii) The expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses and so forth, which are not deductible for tax purposes according to PRC tax regulations.

Notes to Consolidated Financial Statements

13 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding in issue during the years.

	Year ended December 31,	
	2017	2016
Net profit attributable to shareholders of the Bank (in RMB thousands)	10,299,907	10,153,148
Weighted average number of ordinary shares in issue (in thousands)	17,959,697	17,092,484
Basic earnings per share (in RMB yuan)	0.57	0.59

For the year ended December 31, 2017, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

The Bank issued preference shares on March 29, 2017 and the terms and conditions as detailed in Note 30. The conversion feature of preference shares is considered to be contingently issuable ordinary shares. The triggering events of conversion did not occur during the year ended December 31, 2017, and therefore the conversion feature of preference shares has no effect on the basic and diluted earnings per share calculation.

14 CASH AND BALANCES WITH CENTRAL BANK

	December 31, 2017	December 31, 2016
Cash	462,404	309,803
Mandatory reserve deposits with central bank (a)	119,178,519	106,348,030
Surplus reserve deposits with central bank (b)	34,390,270	17,600,970
Fiscal deposits	60,247	10,303
Total	154,091,440	124,269,106

Notes to Consolidated Financial Statements

14 CASH AND BALANCES WITH CENTRAL BANK (continued)

- (a) The Group is required to place mandatory reserve deposits and mandatory reserve for foreign forward exchange with the People's Bank of China ("PBOC"). These mandatory reserves are not available for use in the daily business of the Group.

As at December 31, 2017, the mandatory reserve deposit rates of the Bank were as follows:

	December 31, 2017	December 31, 2016
Mandatory reserve rate for deposits denominated in RMB (i)	14.5%	14.5%
Mandatory reserve rate for deposits denominated in foreign currencies (i)	5%	5%
Mandatory reserve rate for foreign forward exchange (ii)	–	20%

(i) Based on deposit balance on the end of reporting period.

(ii) Based on contractual amount of foreign forward exchange during the period.

- (b) Surplus reserve deposits maintained with the PBOC are mainly for settlement purpose.

15 DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2017	December 31, 2016
Deposits with banks and other financial institutions	24,807,068	52,036,503
Securities purchased under resale agreements	28,986,147	44,487,285
Placements with banks and other financial institutions	4,152,470	1,918,341
Notes purchased under resale agreements	13,086,753	–
Others purchased under resale agreements	400,000	–
Total	71,432,438	98,442,129

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2017	December 31, 2016
Government bonds		
– Listed outside Hong Kong	5,124,435	3,609,537
Other debt securities		
– Listed outside Hong Kong	41,220,081	19,522,282
Total	46,344,516	23,131,819

Notes to Consolidated Financial Statements

16 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

As at December 31, 2017 and December 31, 2016, all financial assets at fair value through profit or loss of the Group were held for trading.

As at December 31, 2017 and December 31, 2016, no financial assets at fair value through profit or loss were pledged to other banks under any repurchase agreements.

Debt securities traded within China domestic interbank bond market are included under the category of "Listed outside Hong Kong".

Financial assets at fair value through profit or loss analysed by categories of the issuer were as follows:

	December 31, 2017	December 31, 2016
Issuers in the PRC		
– Government	5,124,435	3,609,537
– Banks and other financial institutions	26,203,160	19,205,523
– Corporates	15,016,921	316,759
Total	46,344,516	23,131,819

17 DERIVATIVE FINANCIAL INSTRUMENTS

Below listed the nominal value and fair value of unmatured derivative financial instruments held for trading:

	Nominal value	Fair value	
		Asset	Liability
December 31, 2017			
Swap contracts	852,580,297	3,535,377	(4,993,096)
Option contracts	67,058,306	864,398	(288,790)
Forward contracts	8,877,327	154,311	(15,977)
Total	928,515,930	4,554,086	(5,297,863)
December 31, 2016			
Swap contracts	515,633,961	4,510,708	(3,772,549)
Option contracts	25,290,255	73,066	(301,102)
Forward contracts	3,623,253	196,508	(52,883)
Total	544,547,469	4,780,282	(4,126,534)

Notes to Consolidated Financial Statements

18 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers:

	December 31, 2017	December 31, 2016
Corporate loans and advances		
– Loans and advances	518,596,693	353,200,030
– Discounted bills	20,349,584	18,024,442
	538,946,277	371,224,472
Personal loans and advances		
– Personal business	88,211,424	73,203,499
– Residential mortgage loans	28,340,877	8,812,054
– Others	17,380,356	6,253,028
	133,932,657	88,268,581
Subtotal	672,878,934	459,493,053
Less: Allowance for impairment losses		
– Collectively assessed	(19,168,076)	(13,038,063)
– Individually assessed	(3,894,141)	(2,786,333)
Subtotal	(23,062,217)	(15,824,396)
Loans and advances to customers-net	649,816,717	443,668,657

Notes to Consolidated Financial Statements

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Movements in allowance for losses on loans and advances to customers listed by assessment method:

	December 31, 2017		December 31, 2016	
	Collective impairment	Individual impairment	Collective impairment	Individual impairment
Balance at beginning of the year	13,038,063	2,786,333	8,340,569	1,853,352
Net impairment allowances charged to profit or loss (Note 11)	6,648,789	2,068,766	5,827,139	2,591,715
Unwinding of discount on allowance	(26,255)	(27,333)	(36,321)	(20,197)
Write-offs	(467,314)	(851,218)	(830,415)	(483,588)
Transfer out	(225,613)	(164,572)	(370,829)	(1,180,504)
Recoveries	221,674	82,165	100,207	25,555
Exchange differences	(21,268)	–	7,713	–
Balance at end of the year	19,168,076	3,894,141	13,038,063	2,786,333

(c) Movements in allowance for losses on loans and advances to customers listed by customer category:

	December 31, 2017		December 31, 2016	
	Corporate loans and advances	Personal loans and advances	Corporate loans and advances	Personal loans and advances
Balance at beginning of the year	13,051,014	2,773,382	8,592,129	1,601,792
Net impairment allowances charged to profit or loss	7,443,971	1,273,584	6,992,361	1,426,493
Unwinding of discount on allowance	(45,787)	(7,801)	(35,626)	(20,892)
Write-offs	(1,224,902)	(93,630)	(1,024,714)	(289,289)
Transfer out	(272,596)	(117,589)	(1,551,333)	–
Recoveries	186,411	117,428	70,484	55,278
Exchange differences	(21,268)	–	7,713	–
Balance at end of the year	19,116,843	3,945,374	13,051,014	2,773,382

Notes to Consolidated Financial Statements

18 LOANS AND ADVANCES TO CUSTOMERS (continued)

(d) Loans listed by assessment method for allowance:

December 31, 2017	Identified impaired loans and advances (ii)				
	Loans and advances for which allowance is collectively assessed (i)	for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total
Corporate loans and advances	531,985,076	1,016,925	5,944,276	6,961,201	538,946,277
Personal loans and advances	133,127,294	805,363	–	805,363	133,932,657
Allowance for impairment losses	(17,793,757)	(1,374,319)	(3,894,141)	(5,268,460)	(23,062,217)
Loans and advances to customers, net	647,318,613	447,969	2,050,135	2,498,104	649,816,717

December 31, 2016	Identified impaired loans and advances (ii)				
	Loans and advances for which allowance is collectively assessed (i)	for which allowance is collectively assessed	for which allowance is individually assessed	Subtotal	Total
Corporate loans and advances	366,008,799	926,400	4,289,273	5,215,673	371,224,472
Personal loans and advances	87,382,233	886,348	–	886,348	88,268,581
Allowance for impairment losses	(11,753,716)	(1,284,347)	(2,786,333)	(4,070,680)	(15,824,396)
Loans and advances to customers, net	441,637,316	528,401	1,502,940	2,031,341	443,668,657

(i) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been identified as impaired.

(ii) Identified impaired loans and advances include loans for which objective evidence of impairment exists and have been identified as bearing impairment losses, which are measured either individually or collectively.

Notes to Consolidated Financial Statements

19 FINANCIAL INVESTMENTS

	December 31, 2017	December 31, 2016
Available-for-sale financial assets		
Listed outside Hong Kong		
– Debt securities	61,105,819	61,079,765
– Interbank certificates of deposit	4,954	158,896
Unlisted		
– Equity securities	25,000	25,000
– Fund investments	57,018,238	203,280
– Trust plans and asset management plans (i)	9,744,948	–
Total	127,898,959	61,466,941
Held-to-maturity investments		
Listed outside Hong Kong		
– Debt securities	91,262,790	41,532,932
– Interbank certificates of deposit	300,000	–
Total	91,562,790	41,532,932
Debt instruments classified as receivables		
Unlisted		
– Trust plans and asset management plans (i)	343,917,605	520,010,269
– Wealth management products	2,873,649	20,093,570
– Debt securities	400,000	400,000
Subtotal	347,191,254	540,503,839
Less: Allowance for impairment losses		
– Collectively assessed	(3,650,517)	(3,467,730)
– Individually assessed	(317,956)	–
Subtotal	(3,968,473)	(3,467,730)
Debt instruments classified as receivables – Net	343,222,781	537,036,109

Notes to Consolidated Financial Statements

19 FINANCIAL INVESTMENTS (continued)

(i) Trust plans and asset management plans sponsored by other financial institutions can be analysed by secured and unsecured as follows:

Available-for-sale financial assets	December 31,	
	2017	2016
Secured:		
Guaranteed by third-party companies	459,118	–
Subtotal	459,118	–
Unsecured:		
Financial institutions	6,973,420	–
Corporates	2,312,410	–
Subtotal	9,285,830	–
Total	9,744,948	–

Debt instruments classified as receivables	December 31,	
	2017	2016
Secured:		
Guaranteed by third-party companies	14,062,453	38,997,955
Pledged by certificates of deposit	11,442,679	92,978,026
Collateralized by properties	12,285,590	20,260,016
Subtotal	37,790,722	152,235,997
Unsecured:		
Financial institutions	89,280,848	327,517,114
Corporates	216,846,035	40,257,158
Subtotal	306,126,883	367,774,272
Total	343,917,605	520,010,269

Notes to Consolidated Financial Statements

19 FINANCIAL INVESTMENTS (continued)

(ii) Financial investments analysed by issuer or sponsor are as follows:

	December 31, 2017	December 31, 2016
Available-for-sale financial assets		
By issuer:		
– Government	20,122,725	12,433,316
– Banks and other financial institutions	42,901,855	35,864,232
– Corporates	7,831,141	12,941,113
Subtotal	70,855,721	61,238,661
Fund investment	57,018,238	203,280
Equity securities	25,000	25,000
Total	127,898,959	61,466,941
Held-to-maturity investments		
By issuer:		
– Government	74,800,038	22,541,355
– Banks and other financial institutions	16,434,852	18,991,577
– Others	327,900	–
Total	91,562,790	41,532,932
Debt instruments classified as receivables		
By sponsor		
– Banks and other financial institutions	346,791,254	540,103,839
– Others	400,000	400,000
Total	347,191,254	540,503,839
Less: Allowance for impairment losses	(3,968,473)	(3,467,730)
Debt instruments classified as receivables – Net	343,222,781	537,036,109

Notes to Consolidated Financial Statements

20 INVESTMENT IN SUBSIDIARIES

The Bank invested RMB1.53 billion in cash to establish Zheyin Financial Leasing Co., Ltd. (“Zheyin Financial Leasing”) with an entity interest of 51% in 2017. Zheyin Financial Leasing was co-funded by the Bank, Zhejiang Provincial Financial Holdings and Zhoushan Marine Comprehensive Development And Investment Co., Ltd. with a registered capital of RMB3 billion. Since the Bank has control over Zheyin Financial Leasing, the Bank included it in the scope of consolidated financial statements. The detailed information of Zheyin Financial Leasing is as follows:

	Place of incorporation	Registered address	Principal activities	Registered capital (thousand)	Proportion of equity interest (direct)
Zheyin Financial Leasing Co., Ltd.	Zhejiang Province	Zhoushan	Finance industry	3,000,000	51%

Notes to Consolidated Financial Statements

21 PROPERTY, PLANT AND EQUIPMENT

	Buildings and improvements	Equipment	Motor vehicles	Leased fixed assets in the operating leases	Construction in progress	Total
Cost						
At January 1, 2017	1,618,498	793,570	153,643	–	1,324,523	3,890,234
Additions	1,625,057	331,241	33,607	347,120	1,513,421	3,850,446
Transfer from Construction in progress	941,598	–	–	–	(941,598)	–
Disposals	(39,367)	(18,645)	(12,278)	–	(40,613)	(110,903)
At December 31, 2017	4,145,786	1,106,166	174,972	347,120	1,855,733	7,629,777
Accumulated depreciation						
At January 1, 2017	(390,505)	(360,983)	(93,045)	–	–	(844,533)
Charge for the year	(101,969)	(97,829)	(18,206)	(5,240)	–	(223,244)
Disposals	11,838	17,239	11,626	–	–	40,703
At December 31, 2017	(480,636)	(441,573)	(99,625)	(5,240)	–	(1,027,074)
At December 31, 2017	3,665,150	664,593	75,347	341,880	1,855,733	6,602,703
Cost						
At January 1, 2016	1,220,590	639,339	130,505	–	1,183,834	3,174,268
Additions	113,809	169,763	29,990	–	430,135	743,697
Transfer from Construction in progress	284,099	–	–	–	(284,099)	–
Disposals	–	(15,532)	(6,852)	–	–	(22,384)
Others	–	–	–	–	(5,347)	(5,347)
At December 31, 2016	1,618,498	793,570	153,643	–	1,324,523	3,890,234
Accumulated depreciation						
At January 1, 2016	(342,451)	(302,717)	(84,468)	–	–	(729,636)
Charge for the year	(48,054)	(72,567)	(14,867)	–	–	(135,488)
Disposals	–	14,301	6,290	–	–	20,591
At December 31, 2016	(390,505)	(360,983)	(93,045)	–	–	(844,533)
At December 31, 2016	1,227,993	432,587	60,598	–	1,324,523	3,045,701

Notes to Consolidated Financial Statements

22 DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset income tax assets against income tax liabilities and when the deferred income taxes are related to income taxes levied by the same taxation authority. The deferred tax assets and liabilities recognized are as follows:

	December 31, 2017		December 31, 2016	
	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference
Deferred income tax assets:				
Impairment allowances for assets	5,462,778	21,851,113	3,977,208	15,908,832
Staff salary and welfare payable	867,767	3,471,069	521,916	2,087,664
Fair value changes of financial instruments at fair value through profit or loss	275,262	1,101,046	161,706	646,824
Fair value changes of financial assets available for sale	517,939	2,071,755	100,159	400,636
Unrealised losses of derivative instruments	185,944	743,777	–	–
Others	57,118	228,472	3,474	13,896
Subtotal	7,366,808	29,467,232	4,764,463	19,057,852
Deferred income tax liabilities:				
Unrealised gains of derivative instruments	–	–	(163,437)	(653,748)
Subtotal	–	–	(163,437)	(653,748)
Net deferred income tax	7,366,808	29,467,232	4,601,026	18,404,104

Notes to Consolidated Financial Statements

22 DEFERRED INCOME TAXES (continued)

The movements for deferred tax assets and liabilities recognized are as follows:

	December 31, 2017	December 31, 2016
At beginning of the year	4,601,026	2,105,271
Charged to profit or loss	2,348,002	2,076,113
Charged to other comprehensive income		
– Fair value changes of financial assets available for sale	417,780	419,642
At end of the year	7,366,808	4,601,026

23 OTHER ASSETS

	December 31, 2017	December 31, 2016
Interest receivable (i)	6,774,673	4,890,326
Intangible assets (ii)	753,561	639,848
Other receivables	2,651,593	1,731,477
Less: impairment allowance	(48,768)	(35,413)
Prepayment of land and building and deposit	805,882	591,812
Prepayment of improvements and equipment	240,538	116,989
Long-term prepaid expenses	385,744	332,221
Guaranteed deposits	541,125	199,183
Funds to be settled	159,267	14,610
Finance lease receivables	8,415,635	–
Others	797,101	445,940
Total	21,476,351	8,926,993

Notes to Consolidated Financial Statements

23 OTHER ASSETS (continued)

(i) Interest receivable

	December 31, 2017	December 31, 2016
Financial investments and financial assets at fair value through profit or loss	3,255,667	3,510,495
Loans and advances to customers	3,300,120	1,168,425
Due from other banks and central bank	154,909	211,406
Others	63,977	–
Total	6,774,673	4,890,326

(ii) Intangible assets

	Land use rights	Computer software	Total
Cost			
At January 1, 2017	528,783	314,597	843,380
Additions	104,511	58,260	162,771
At December 31, 2017	633,294	372,857	1,006,151
Accumulated amortisation			
At January 1, 2017	(66,782)	(136,750)	(203,532)
Amortisation for the year	(16,051)	(33,007)	(49,058)
At December 31, 2017	(82,833)	(169,757)	(252,590)
Net book value			
At December 31, 2017	550,461	203,100	753,561

Notes to Consolidated Financial Statements

23 OTHER ASSETS (continued)

(ii) Intangible assets (continued)

	Land use rights	Computer software	Total
Cost			
At January 1, 2016	437,162	270,735	707,897
Additions	91,621	43,862	135,483
At December 31, 2016	528,783	314,597	843,380
Accumulated amortisation			
At January 1, 2016	(54,659)	(109,909)	(164,568)
Amortisation for the year	(12,123)	(26,841)	(38,964)
At December 31, 2016	(66,782)	(136,750)	(203,532)
Net book value			
At December 31, 2016	462,001	177,847	639,848

The net book value of land use rights is analysed based on the remaining terms of the leases as follows:

	December 31, 2017	December 31, 2016
Held outside Hong Kong – on medium-term lease (10-50 years)	550,461	462,001

Notes to Consolidated Financial Statements

24 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2017	December 31, 2016
Deposits from banks and other financial institutions	297,421,983	357,404,602
Placements from banks and other financial institutions	29,249,712	19,352,840
Securities sold under repurchase agreements	28,857,000	15,258,399
Notes sold under repurchase agreements	1,276,923	2,092,980
Total	356,805,618	394,108,821

25 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2017	December 31, 2016
Financial liabilities related to precious metal contracts	5,466,318	13,846,049
Short sell of borrowed securities	149,272	29,560
Total	5,615,590	13,875,609

26 CUSTOMER DEPOSITS

	December 31, 2017	December 31, 2016
Corporate demand deposits	290,752,765	256,737,966
Corporate time deposits	511,302,211	443,686,661
Individual demand deposits	21,166,325	7,501,155
Individual time deposits	34,521,564	26,046,656
Other deposits	2,876,592	2,271,260
Total	860,619,457	736,243,698
Including: Pledged deposits held as collateral	107,738,211	96,140,392

Notes to Consolidated Financial Statements

27 DEBT SECURITIES ISSUED

	December 31, 2017	December 31, 2016
Fixed rate financial bonds – 2018 (i)	1,500,000	1,500,000
Fixed rate financial bonds – 2019 (ii)	4,500,000	4,500,000
Fixed rate financial bonds – 2020 (iii)	5,000,000	5,000,000
Fixed rate financial bonds – 2021 (iv)	10,000,000	10,000,000
Fixed-rate offering-tier 2 capital bond – 2026 (v)	10,000,000	10,000,000
Interbank certificates of deposit	159,551,983	83,595,250
Total	190,551,983	114,595,250

- (i) Fixed-rate financial bond of RMB1.5 billion was issued on September 11, 2013, with a maturity of 5 years and a fixed coupon rate of 5.00% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (ii) Fixed-rate financial bond of RMB4.5 billion was issued on March 10, 2014, with a maturity of 5 years and a fixed coupon rate of 5.70% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (iii) Fixed-rate financial bond of RMB5 billion was issued on December 24, 2015, with a maturity of 5 years and a fixed coupon rate of 3.88% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (iv) Fixed-rate financial bond of RMB10 billion was issued on February 24, 2016, with a maturity of 5 years and a fixed coupon rate of 3.60% per annum payable annually. The Bank has no option to redeem the bond before maturity.
- (v) Fixed-rate offering-tier 2 capital bond of RMB10 billion was issued on September 14, 2016, with a maturity of 10 years and a fixed coupon rate of 3.60% per annum payable annually. The Bank has an option to redeem all the debts at face value at the year end of 2021.

As at December 31, 2017, there were no defaults on principal and interest or other breaches to the agreements with respect to issued bonds or interbank certificates of deposit for the Group.

Notes to Consolidated Financial Statements

28 OTHER LIABILITIES

	December 31, 2017	December 31, 2016
Interest payable (i)	13,828,010	12,260,436
Salary and welfare payable (ii)	4,888,622	4,643,722
Tax payable (iii)	657,755	134,889
Dividends payable	869,576	15,311
Notes payable	1,441,291	–
Settlement fund	1,809,198	3,611,447
Promissory notes and certified cheques issued	350,547	696,988
Deferred income	16,903	12,340
Others	1,420,044	493,745
Total	25,281,946	21,868,878

(i) Interest payable

	December 31, 2017	December 31, 2016
Customer deposits	11,005,207	9,113,358
Due to banks and other financial institutions	1,896,432	2,221,805
Debt securities issued	926,371	925,273
Total	13,828,010	12,260,436

(ii) Salary and welfare payable

	December 31, 2017	December 31, 2016
Salary, bonus, allowance and subsidies	4,806,160	4,570,584
Labor union fee and staff education expenses	82,462	73,138
Total	4,888,622	4,643,722

(iii) Tax payable

	December 31, 2017	December 31, 2016
Value-added tax payable	564,841	59,319
Others	92,914	75,570
Total	657,755	134,889

Notes to Consolidated Financial Statements

29 SHARE CAPITAL AND CAPITAL RESERVE

All shares of the Bank issued are fully paid ordinary shares, with par value of RMB1 per share. The Bank's number of shares is as follows:

	December 31, 2017	December 31, 2016
Number of shares authorised, issued and fully paid at par value (in thousands) (i)	17,959,697	17,959,697

- (i) On March 30, 2016, the Bank were listed on the Hong Kong Stock Exchange, and fully exercised of the Over-Allotment Option on April 19, 2016. The total number of H shares issued globally was 3,795,000,000 (including 3,450,000,000 new H shares and 345,000,000 shares sold by selling shareholders). The offering price was HK\$3.96 per share, each share at the par value of RMB1.00.

As at December 31, 2017, the Group's capital reserve is shown as follows:

	December 31, 2017	December 31, 2016
Share premium (ii)	19,974,808	19,990,020

- (ii) The Bank recognized the share premium after deducting direct issuing costs (including underwriting fees and some other professional agency fees) as capital reserve.

Notes to Consolidated Financial Statements

30 OTHER EQUITY INSTRUMENTS

(a) List of preference shares issued

Equity instruments in issue	Issue date	Dividend rate	Original issuance price per share (USD)	Number	Total (USD in thousands)	Total (RMB in thousands)	Maturity date	Conversion condition
Offshore preference shares	March 29, 2017	The initial annual dividend rate is 5.45% and is subsequently subject to reset per agreement	20	108,750,000	2,175,000	14,989,013	No maturity date	No conversion during the period
					Minus: Issuance fee	(31,349)		
					Book value	14,957,664		

(b) Movement of preference shares issued

	December 31, 2016	Addition	Reduction	December 31, 2017
Number (share)	–	108,750,000	–	108,750,000
Total (USD in thousands)	–	2,175,000	–	2,175,000
Total (RMB in thousands)	–	14,957,664	–	14,957,664

(c) Main terms of preference shares

(i) Dividend

The offshore preference shares dividend will be calculated on following dividend yields:

- from and including the issue date to but excluding the first reset date, at the rate of 5.45% per annum; and
- thereafter, in respect of the period from and including the first reset date and each reset date falling thereafter to but excluding the immediately following reset date, at the relevant reset dividend rate.

The dividend for offshore preference shares is non-cumulative.

Notes to Consolidated Financial Statements

30 OTHER EQUITY INSTRUMENTS (continued)

(c) **Main terms of preference shares** (continued)

(ii) **Conditions to distribution of dividends**

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory surplus reserve and making statutory general provisions, and the Bank's capital adequacy ratio meets regulatory requirements.

Subject to a resolution to be passed at the shareholders' general meeting of the Bank on each such occasion, the Bank may elect to cancel (in whole or in part) any dividend otherwise scheduled to be paid on a dividend payment date in the manner set out in the conditions. The Bank may at its discretion use the funds arising from the cancellation of such dividend to repay other indebtedness that are due.

Under the circumstances where the Bank cancels a dividend in whole or in part, in accordance with such shareholders' resolution and the conditions, the Bank would not make any distribution or dividend in cash or otherwise on, and will procure that no distribution or dividend in cash or otherwise is made on, any ordinary shares or on any other class of shares or obligations that ranks or is expressed to rank junior to the offshore preference shares.

(iii) **Conversion**

If any trigger event occurs, the Bank shall (having notified and obtained the consent of the CBRC but without the need for the consent of the offshore preference shareholders or the ordinary shareholders):

- (1) cancel any dividend in respect of the relevant loss absorption amount that is accrued but unpaid up to and including the conversion date; and
- (2) irrevocably and compulsorily convert with effect from the conversion date all or some of the offshore preference shares into such number of H shares as is equal to the loss absorption amount held by the offshore preference shareholders (as converted into Hong Kong dollars at the fixed exchange rate of USD\$1.00 to HK\$7.7544) divided by the effective conversion price rounded down (to the extent permitted by applicable laws and regulations) to the nearest whole number of H shares, and any fractional share less than one H share resulting from the conversion will not be issued and no cash payment or other adjustment will be made in lieu thereof.

The "trigger event" refers to an additional tier one capital instrument trigger event or a non-viability trigger event, as the case may be. The "additional tier one capital instrument trigger event" refers to the occasion where the Bank's core tier one capital adequacy ratio of the Bank has fallen to 5.125% or below. The "non-viability trigger event" is defined as the earlier of: the CBRC having decided that without a conversion or write-off, the Bank would become non-viable; and (ii) the relevant authorities having decided that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable.

Notes to Consolidated Financial Statements

30 OTHER EQUITY INSTRUMENTS (continued)

(c) Main terms of preference shares (continued)

(iv) Order of distribution and liquidation method

Upon the winding-up of the Bank, the offshore preference shareholders shall rank: (a) junior to holders of (i) all liabilities of the Bank including subordinated liabilities and (ii) obligations issued or guaranteed by the Bank that rank, or are expressed to rank, senior to the offshore preference shares; (b) equally in all respects with each other and without preference among themselves and with the holders of parity obligations; and (c) in priority to the ordinary shareholders.

On such winding-up of the Bank, any remaining assets of the Bank shall, after the distributions in accordance with the conditions have been made, be applied to the claims of the shareholders so that the claims of the offshore preference shareholders shall be pari passu with the claims of holders of any parity obligations and in priority to the claims of the ordinary shareholders.

(v) Redemption

The Bank may, subject to obtaining the CBRC approval and compliance with the conditions to the distribution of dividends set out in the conditions and redemption preconditions, upon prior notice to the offshore preference shareholders and the fiscal agent, redeem all or some of the offshore preference shares on the first reset date and on any dividend payment date thereafter. The redemption price for each offshore preference share shall be the aggregate of an amount equal to its liquidation preference plus any declared but unpaid dividends in respect of the period from (and including) the immediately preceding dividend payment date to (but excluding) the date scheduled for redemption.

(d) Information related to the holders of the equity instrument

	December 31,	
	2017	2016
Attributable to shareholders of the Bank	88,194,636	67,475,378
Equity attribute to ordinary shareholders of the Bank	73,236,972	67,475,378
Equity attribute to other equity holders of the Bank	14,957,664	–
Attributable to non-controlling interest	1,493,118	–

Notes to Consolidated Financial Statements

31 SURPLUS RESERVE AND STATUTORY GENERAL RESERVE

	Surplus reserve (i)	Statutory general reserve (ii)
Balance at January 1, 2017	3,790,406	13,242,456
Appropriation	1,092,569	–
Appropriation	–	4,001,274
Balance at December 31, 2017	4,882,975	17,243,730
Balance at January 1, 2016	2,775,091	8,241,258
Appropriation	1,015,315	–
Appropriation	–	5,001,198
Balance at December 31, 2016	3,790,406	13,242,456

(i) **Surplus reserve**

Pursuant to the relevant PRC regulations, the Bank is required to transfer 10% of its net profit to the non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of this reserve has reached 50% of share capital. Subject to the approval of general meeting of shareholders, the statutory surplus reserve can be used for replenishing accumulated losses or increasing the Bank's ordinary share capital. The statutory surplus reserve amount used to increase the ordinary share capital is limited to a level where the balance of the statutory surplus reserve after such capitalization is not less than 25% of the ordinary share capital before capitalization.

(ii) **Statutory general reserve**

Pursuant to Caijin [2012] No. 20 "Requirements on Impairment Allowance for Financial Institutions"(the "Requirement"), effective on July 1, 2012, on the basis of impairment allowance, the Bank establishes a statutory general reserve within equity through the appropriation of profit to address unidentified potential impairment risks. The general reserve is treated as profit distribution and is an integral part of shareholders' equity, which should not be less than 1.5% of the aggregate amount of risk assets as defined by the Requirement.

Notes to Consolidated Financial Statements

32 INVESTMENT REVALUATION RESERVE

	Pre-tax amount	Tax charge	Net of tax
Balance at January 1, 2017	(400,637)	100,159	(300,478)
Fair value changes in available-for-sale	(1,520,518)	380,130	(1,140,388)
Amounts previously recognized in other comprehensive income reclassified to profit or loss	(150,601)	37,650	(112,951)
Balance at December 31, 2017	(2,071,756)	517,939	(1,553,817)
Balance at January 1, 2016	1,277,931	(319,483)	958,448
Fair value changes in available-for-sale	(1,341,006)	335,251	(1,005,755)
Amounts previously recognized in other comprehensive income reclassified to profit or loss	(337,562)	84,391	(253,171)
Balance at December 31, 2016	(400,637)	100,159	(300,478)

33 DIVIDENDS

Under the PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

- Making up prior year's cumulative losses, if any;
- Appropriation to the non-distributable statutory surplus reserve of 10% of the net profit of the Bank.

In accordance with the relevant regulations, after the Bank's initial public offering, the net profit after tax of the Bank for the purpose of profit distribution is deemed to be the lesser of (i) the retained profits determined in accordance with the Chinese Accounting Standard and (ii) the retained profit determined in accordance with IFRS.

As approved by shareholders in the Annual General Meeting on May 31, 2017, the Bank declared a cash dividend of RMB1.7 (before tax) for each 10 ordinary shares, with total amount of RMB3,053,148 thousand.

On December 20, 2017, the board of directors of the Bank reviewed and approved the payment of dividends to offshore preference shareholders. In accordance with the interest rate of 5.45% (after tax) of the offshore preferred stock terms, the total amount of dividends paid was USD132 million (including tax), and the dividend payment date would be March 29, 2018.

On March 26, 2018, the Board of Directors of the Bank proposed to appropriate RMB 1,218,261 thousand to the statutory general reserve for 2017. The Board of Directors of the Bank also proposed to appropriate a cash dividend of RMB1.7 (tax included) for each 10 ordinary shares on the basis of the total share capital at the date of equity registration of profit distribution. The proposal will be subject to the approval by the shareholders in the forthcoming Annual General Meeting of the Bank.

Notes to Consolidated Financial Statements

34 NON-CONTROLLING INTEREST

The Group's non-controlling interest is listed as follows:

	December 31, 2017
Zheyin Financial Leasing Co., Ltd.	1,493,118

As at December 31, 2017, the non-controlling interest of the Group is not material.

35 THE EQUITY IN OTHER ENTITIES

35.1 Unconsolidated structured entities

(a) Unconsolidated structured entities managed by the Group

The unconsolidated structure entities managed by the Group are wealth management products sponsored and managed by the Group acting as an agent. Based on the analysis and research of the potential target customers, the Group designs and offers wealth management products to meet the needs of the customers. The raised funds were invested in relevant financial markets or financial products in accordance with the contractual term of the product agreements. Investment returns would be allocated to investors according to contractual agreements. The Group receives commission income as the manager of these wealth management products. The Group considered its variable returns from its involvement with the structured entities are insignificant and hence it does not consolidate these structured entities.

The wealth management products sponsored and managed by the Group were mainly invested in bonds and money market instruments, non-standard debt assets and equity investment. The Group set admission principles for investment structures, underlying investments, withdrawing and security measures of these investments and managed them through pre-investment due diligence, business review, draw down approval and post-investment monitoring, etc. As of December 31, 2017, there is no objective evidence of impairment for these investments.

As of December 31, 2017, the balance of unconsolidated wealth management products sponsored and managed by the Group is RMB348,919 million (December 31, 2016: RMB429,106 million). The Group's maximum exposure to these unconsolidated structured entities is presented by management fees receivable which is insignificant. As of December 31, 2017, the Group's intermediate business income from providing management services for the non-principal guaranteed wealth management products was RMB4,570 million (December 31, 2016: RMB5,417 million).

During the years ended December 31, 2017 and 2016, the group did not provide financial or other support to these structured entities. The group did not have any current intention to provide financial or other support to these structured entities, including intentions to assist these structured entity in obtaining financial support.

Notes to Consolidated Financial Statements

35 THE EQUITY IN OTHER ENTITIES (continued)

35.1 Unconsolidated structured entities (continued)

(b) Unconsolidated structured entities invested by the Group

As at December 31, 2017, the Group invests in a number of unconsolidated structured entities mainly consisting of asset-backed securities, funds, wealth management products, trust plans and the asset management plans sponsored and managed by other independent third parties.

During the year ended December 31, 2017, the Group did not provide financial or other support to these structured entities.

The table below sets out the carrying value and the Group's maximum exposure (including interest receivable) to these unconsolidated structured entities.

	Carrying value	Maximum exposure to loss
At December 31, 2017		
Financial assets at fair value through profit or loss		
– Asset backed securitization	1,903,556	1,903,556
Available for sale financial assets		
– Asset backed securitization	85,941	85,941
– Fund investments	57,018,238	57,018,238
– Trust and asset management plans	9,744,948	9,744,948
Debt instruments classified as receivables		
– Wealth management products sponsored by other banks	2,873,649	2,873,649
– Trust plans and asset management plans sponsored by other financial institutions	343,917,605	345,580,932
At December 31, 2016		
Financial assets at fair value through profit or loss		
– Asset backed securitization	2,600,554	2,600,554
Available for sale financial assets		
– Asset backed securitization	3,840,382	3,840,382
Debt instruments classified as receivables		
– Wealth management products sponsored by other banks	20,093,570	20,093,570
– Trust plans and asset management plans sponsored by other financial institutions	520,010,269	521,006,432

Notes to Consolidated Financial Statements

36 FINANCIAL GUARANTEE AND CREDIT COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

(a) Financial guarantee and other credit commitments

	December 31, 2017	December 31, 2016
Acceptances	214,386,017	164,360,672
Letters of credit issued	108,503,258	128,676,586
Letters of guarantee issued	40,837,128	43,601,377
– Letters of financial guarantee	31,003,722	33,424,868
– Letters of non-financial guarantee	8,915,617	9,939,014
– Letters of guarantee	917,789	237,495
Loan commitments	717,025	3,061,032
Unused credit card limit	22,822,115	11,177,797
Total	387,265,543	350,877,464

(b) Capital commitments

	December 31, 2017	December 31, 2016
Authorised but not contracted	3,901,619	2,810,696
Contracted but not yet incurred	857,708	1,084,160
Total	4,759,327	3,894,856

(c) Operating leasing commitment

The future minimum lease payments under irrevocable rental contract are listed as follows:

	December 31, 2017	December 31, 2016
Within one year	632,555	477,992
Between one year and five years	1,986,283	1,494,106
More than five years	1,350,040	834,143
Total	3,968,878	2,806,241

(d) Legal proceedings

As at December 31, 2017 and December 31, 2016, the management of the Group believes the legal proceedings initiated against the Group does not have material impact on the Group's financial position or operations.

Notes to Consolidated Financial Statements

37 ASSETS PLEDGED

	December 31, 2017	December 31, 2016
Bonds	69,650,442	32,588,407
Bills	1,284,291	2,100,808
Total	70,934,733	34,689,215

Assets above are pledged as collateral mainly for the repurchase agreements with other financial institutions, securities lending and medium-term lending facility.

38 CREDIT RISK-WEIGHTED AMOUNT OF FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS

	December 31, 2017	December 31, 2016
Financial guarantees and credit related commitments	101,312,102	90,666,765

The credit risk-weighted amount refers to the amount as computed in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weightings used range from 0% to 100% for contingent liabilities and credit related commitments.

39 CASH AND CASH EQUIVALENTS

For the purposes of the statements of cash flow, cash and cash equivalents comprise the following balances with original maturities of less than three months used for the purpose of meeting short-term cash commitments:

	December 31, 2017	December 31, 2016
Cash	462,404	309,803
Surplus deposit reserve with central bank	34,390,270	17,600,970
Due from banks and other financial institutions	23,737,068	32,266,553
Total	58,589,742	50,177,326

Notes to Consolidated Financial Statements

40 RELATED PARTY TRANSACTIONS

Related party transactions are proceeded in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties. Transactions with related party are as follows:

(a) Transactions with Zhejiang Provincial Financial Holdings Co., Ltd. and its Group

Name of Shareholders	Shareholding Ratio (%)	
	December 31, 2017	December 31, 2016
Zhejiang Provincial Financial Holdings Co., Ltd.	14.79	14.79

(1) Balance and relevant interest rate spectrum of transactions with Zhejiang Provincial Financial Holdings Co., Ltd. and its Group are as follows:

	December 31, 2017	December 31, 2016
Customer deposits	4,433,738	6,716,809
Provide guarantees or pledges for loans of giving-credit customers	4,834,832	2,224,840
Debt instruments classified as receivables	3,500,000	–
Rate of customer deposits	0%-0.35%	0%-1.75%

(2) Transactions with Zhejiang Provincial Financial Holdings Co., Ltd. and its Group during the year are as follows:

	Year ended December 31,	
	2017	2016
Interest expense	(106,260)	(32,808)

Notes to Consolidated Financial Statements

40 RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with other main shareholders and their related parties

Other major shareholders refer to those shareholders who hold or control more than 5% of the Group's shares or voting rights and corporations that has sent directors, supervisors or senior management to the Group (excluding Zhejiang Provincial Financial Holdings).

- (i) Balance and relevant interest rate spectrum of transactions with other main shareholders and their related parties are as follows:

	December 31, 2017	December 31, 2016
Customer deposits	1,681,810	3,733,103
Loans and advances to customers	1,825,220	694,560
Acceptances	116,107	106,342
Domestic letter of credit	188,000	48,000
Letters of guarantee	301	-
Provide guarantees or pledges for loans of giving-credit customers	4,572,840	1,732,050
Debt instruments classified as receivables	7,216,603	14,296,848
Rate of loans and advances to customers	4.25%-6.60%	4.35%-5.23%
Rate of customer deposits	0%-1.95%	0%-1.95%

- (ii) Transactions with other main shareholders and their related parties during the year are as follows:

	Year ended December 31,	
	2017	2016
Interest income	92,702	33,103
Interest expense	(120,204)	(231,417)
Net fee and commission income	19,002	1,304

Notes to Consolidated Financial Statements

40 RELATED PARTY TRANSACTIONS (continued)

(c) Transactions with other corporations as related parties

Other corporations as related parties refer to those shareholders who hold or control less than 5% of the Group's shares or voting rights.

- (i) Balance and relevant interest rate spectrum of transactions with other artificial persons as related parties are as follows:

	December 31, 2017	December 31, 2016
Customer deposits	571,627	352,317
Loans and advances to customers	290,000	180,000
Acceptances	421,839	2,417
Domestic letter of credit	45,500	-
Provide guarantees or pledges for loans of giving-credit customers	1,164,900	1,010,000
Bonds	955,244	50,000
Debt instruments classified as receivables	4,870,000	10,030,000
Rate of loans and advances to customers	4.07%-6.53%	4.79%-6.53%
Rate of customer deposits	0%-1.95%	0%-1.95%

- (ii) Transactions with other artificial persons as related parties during the year are as follows:

	Year ended December 31,	
	2017	2016
Interest income	10,987	7,912
Interest expense	(9,030)	(16,975)
Net fee and commission income	316	13

Notes to Consolidated Financial Statements

40 RELATED PARTY TRANSACTIONS (continued)

(d) The amounts and relevant interest rate spectrum of transactions with the Group's directors, supervisors and senior management and their family members are as follows:

	December 31, 2017	December 31, 2016
Customer deposits	7,647	4,423
Loans and advances to customers	900	-
Provide guarantees or pledges for loans of giving-credit customers	1,047,000	466,000
Rate of loans and advances to customers	4.95%-6.81%	-
Rate of customer deposits	0.05%-5.00%	0.35%-5.10%

	Year ended December 31, 2017	2016
Interest expense	(74)	(11)
Net fee and commission income	1	1

In addition, Yongli Properties Group Limited, which is under control of the Group's supervisor Zhou Yang's immediate family, provides two business occupancy rental services for Shaoxing Branch of the Group: 1) the lease term starts from December 1, 2016 until November 30, 2021, for a period of five years. The annual rent is RMB3,000 thousand for the first two years; for the third to the fifth year, the rent rises by 5% on the basis of the second year rental. 2) the lease term starts from May 1, 2016 until November 30, 2021, for a period of five years and seven months, with the annual rent of RMB650 thousand.

(e) Government related entities

The transactions between the Group and the government authorities, agencies, affiliates and other state controlled entities proceed under normal commercial terms and conditions. These transactions mainly include provision of credit and guarantee, deposits, foreign exchange transactions, derivative transactions, agency service, underwriting of bonds issued by government agencies, purchases, sales and redemption of securities issued by government agencies. Management considers that transactions with these entities are activities conducted in the ordinary course of business. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government authorities, agencies, affiliates and other state controlled entities.

Notes to Consolidated Financial Statements

40 RELATED PARTY TRANSACTIONS (continued)

(f) Transactions between the Bank and the subsidiary

Transactions between the Bank and the subsidiary are based on market prices with the normal business procedure or are performed according to the Bank's contractual obligations, and are reviewed by the corresponding decision-making body depending on the types of transactions and the contents of transactions. During the reporting period, transactions between the Bank and the subsidiary were not significant.

(g) Key management personnel remuneration

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Group.

The Group enters into banking transactions with key management personnel in the normal course of business. For the year ended December 31, 2017 and the year ended December 31, 2016, the Group had no material banking transactions with key management personnel.

The remuneration of directors and other members of key management during the period were as follows:

	Year ended December 31,	
	2017	2016
Fees	1,800	1,900
Salaries and allowances and benefits	11,579	13,205
Discretionary bonuses	28,899	25,429
Contribution to pension	2,125	2,274
Total	44,403	42,808

41 SEGMENT REPORTING

(a) Business segments

The Group manages its operations from both business and geographic perspectives. From the business perspective, the Group provides services through four main business segments listed below:

- Corporate banking – The corporate banking segment provides financial products and services to corporations, government agencies and other institutions. The range of products and services includes corporate loans and advances, trade finance, deposit products and other types of corporate intermediary services, etc.
- Retail banking – The retail banking segment provides financial products and services to individual customers. The range of products and services includes personal loans and advances, deposit products, bank cards business and other types of personal intermediary services.
- Treasury business – The treasury business conducts money market and repurchase transactions, debt instruments investments, financial derivatives business for proprietary trading or on behalf of customers, financial products and services provided to other financial institutions.
- Others – Others comprise components of the Group that are not attributable to any of the above segments and the relevant business of subsidiaries.

Notes to Consolidated Financial Statements

41 SEGMENT REPORTING (continued)

(a) Business segments (continued)

	Year ended December 31, 2017				
	Corporate banking	Retail banking	Treasury business	Others	Total
External interest income	28,325,868	6,653,390	27,342,373	260,657	62,582,288
External interest expense	(17,669,143)	(1,595,037)	(18,862,936)	(64,066)	(38,191,182)
Inter-segment net interest income/(expenses)	6,767,620	(1,595,211)	(5,172,409)	-	-
Net interest income	17,424,345	3,463,142	3,307,028	196,591	24,391,106
Net fee and commission income	1,706,189	282,735	5,951,857	72,624	8,013,405
Net trading gains	-	-	456,020	-	456,020
Net gains on financial investments	704,099	-	201,291	-	905,390
Other operating income	5,514	31,469	291,821	169,424	498,228
Operating income	19,840,147	3,777,346	10,208,017	438,639	34,264,149
Operating expenses	(6,526,867)	(1,512,978)	(2,973,179)	(170,136)	(11,183,160)
– Depreciation and amortisation	(193,427)	(30,273)	(130,947)	(9,022)	(363,669)
Impairment losses on assets	(4,161,815)	(1,276,247)	(3,825,325)	(110,844)	(9,374,231)
Profit before income tax	9,151,465	988,121	3,409,513	157,659	13,706,758
Capital expenditure	1,811,510	380,869	1,888,236	36,879	4,117,494
	December 31, 2017				
	Corporate banking	Retail banking	Treasury business	Others	Total
Segment assets	672,859,892	141,468,403	701,358,729	13,698,270	1,529,385,294
Unallocated assets					7,366,808
Total assets					1,536,752,102
Segment liabilities	(822,175,754)	(57,219,921)	(563,465,589)	(4,203,084)	(1,447,064,348)

Notes to Consolidated Financial Statements

41 SEGMENT REPORTING (continued)

(a) Business segments (continued)

	Year ended December 31, 2016				Total
	Corporate banking	Retail banking	Treasury business	Others	
External interest income	24,945,936	4,605,178	25,125,344	-	54,676,458
External interest expense	(12,662,992)	(461,893)	(16,323,020)	-	(29,447,905)
Inter-segment net interest income/ (expenses)	3,391,439	(1,111,658)	(2,279,781)	-	-
Net interest income	15,674,383	3,031,627	6,522,543	-	25,228,553
Net fee and commission income	1,764,486	76,632	5,633,969	-	7,475,087
Net trading gains	-	-	10,134	-	10,134
Net gains on financial investments	387,777	-	337,562	-	725,339
Other operating income	84,463	24,645	28,069	77,052	214,229
Operating income	17,911,109	3,132,904	12,532,277	77,052	33,653,342
Operating expenses	(5,509,153)	(786,737)	(3,672,020)	(15,862)	(9,983,772)
- Depreciation and amortisation	(101,769)	(13,674)	(120,616)	(216)	(236,275)
Impairment losses on assets	(8,845,233)	(1,432,778)	-	-	(10,278,011)
Profit before income tax	3,556,723	913,389	8,860,257	61,190	13,391,559
Capital expenditure	431,087	64,303	448,735	2,130	946,255
	December 31, 2016				Total
	Corporate banking	Retail banking	Treasury business	Others	
Segment assets	615,137,846	91,756,149	640,319,661	3,039,837	1,350,253,493
Unallocated assets					4,601,026
Total assets					1,354,854,519
Segment liabilities	(715,326,617)	(34,582,561)	(533,326,820)	(4,143,143)	(1,287,379,141)

Notes to Consolidated Financial Statements

41 SEGMENT REPORTING (continued)

(b) Geographical segments

Geographically, the Group mainly conducts its business in the four areas listed below in Mainland China.

- “Yangtze River Delta Region” refers to the head office, Zheyin Financial Leasing and the following areas serviced by the tier-one branches of the Group: Hangzhou, Ningbo, Wenzhou, Yiwu, Shaoxing, Shanghai, Nanjing, Suzhou, Zhoushan, Hefei;
- ‘Bohai Rim Region’ refers to the following areas serviced by the tier-one branches of the Group: Beijing, Tianjin, Jinan, Shenyang;
- ‘Pearl River Delta Region’ refers to the following areas serviced by the tier-one branches of the Group: Shenzhen, Guangzhou; and
- ‘Midwestern China’ refers to the following areas serviced by the tier-one branches of the Group: Chengdu, Xi’an, Lanzhou, Chongqing, Wuhan, Zhengzhou.

	Year ended December 31, 2017					Total
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region	Midwestern China	Elimination	
External interest income	39,099,647	10,015,977	4,000,843	9,465,821	-	62,582,288
External interest expense	(25,682,320)	(5,093,321)	(2,613,543)	(4,801,998)	-	(38,191,182)
Inter-segment net interest income/(expenses)	1,178,750	(786,704)	(125,636)	(266,410)	-	-
Net interest income	14,596,077	4,135,952	1,261,664	4,397,413	-	24,391,106
Net fee and commission income	5,640,471	851,221	671,695	850,018	-	8,013,405
Net trading (losses)/gains	(260,830)	145,328	441,420	130,102	-	456,020
Net gains on financial investments	553,525	(52,131)	3,480	400,516	-	905,390
Other operating income	180,226	46,720	11,951	259,331	-	498,228
Operating income	20,709,469	5,127,090	2,390,210	6,037,380	-	34,264,149
Operating expenses	(7,121,969)	(1,702,583)	(712,894)	(1,645,714)	-	(11,183,160)
- Depreciation and amortisation	(273,020)	(33,686)	(6,653)	(50,310)	-	(363,669)
Impairment losses on assets	(6,166,293)	(1,580,381)	(550,384)	(1,077,173)	-	(9,374,231)
Profit before income tax	7,421,207	1,844,126	1,126,932	3,314,493	-	13,706,758
Capital expenditure	3,497,231	197,235	45,421	377,607	-	4,117,494
Segment assets	1,813,573,789	245,003,378	100,166,682	257,500,169	(886,858,724)	1,529,385,294
Unallocated assets						7,366,808
Total assets						1,536,752,102
Segment liabilities	(1,735,321,133)	(243,909,753)	(99,556,294)	(255,135,892)	886,858,724	(1,447,064,348)

Notes to Consolidated Financial Statements

41 SEGMENT REPORTING (continued)

(b) Geographical segments (continued)

	Year ended December 31, 2016					
	Yangtze River Delta Region	Bohai Rim Region	Pearl River Delta Region	Midwestern China	Elimination	Total
External interest income	33,892,477	9,564,871	2,722,903	8,496,207	-	54,676,458
External interest expense	(19,072,024)	(5,371,226)	(1,595,549)	(3,409,106)	-	(29,447,905)
Inter-segment net interest income/(expenses)	724,856	40,935	131,623	(897,414)	-	-
Net interest income	15,545,309	4,234,580	1,258,977	4,189,687	-	25,228,553
Net fee and commission income	5,174,702	1,023,064	479,848	797,473	-	7,475,087
Net trading gains	9,737	228	36	133	-	10,134
Net gains on financial investments	367,907	248,969	42,478	65,985	-	725,339
Other operating income	153,133	11,975	2,451	46,670	-	214,229
Operating income	21,250,788	5,518,816	1,783,790	5,099,948	-	33,653,342
Operating expenses	(6,440,862)	(1,576,535)	(587,307)	(1,379,068)	-	(9,983,772)
- Depreciation and amortisation	(176,763)	(27,899)	(6,176)	(25,437)	-	(236,275)
Impairment losses on assets	(6,328,098)	(1,532,157)	(578,585)	(1,839,171)	-	(10,278,011)
Profit before income tax	8,481,828	2,410,124	617,898	1,881,709	-	13,391,559
Capital expenditure	630,862	115,342	18,612	181,439	-	946,255
Segment assets	1,300,381,130	275,332,329	99,138,703	217,967,292	(542,565,961)	1,350,253,493
Unallocated assets						4,601,026
Total assets						1,354,854,519
Segment liabilities	(1,241,584,216)	(273,819,160)	(98,814,535)	(215,727,191)	542,565,961	(1,287,379,141)

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT

Overview

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Managing those risks are crucial to the financial business, and operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and control programs, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

The Board of Directors is responsible for establishing the overall risk appetite of the Group, and reviewing and approving its risk management objectives and strategies. Management establishes and implements corresponding risk management policies and procedures according to the risk management objectives and strategies. Internal audit department is responsible for the independent review of risk management and the internal control.

The primary financial risks the Group is exposed to are credit risk, market risk (including interest rate risk, foreign exchange risk), and liquidity risk.

42.1 Credit risk

42.1.1 Credit risk measurement

The Group is exposed to credit risk, which is the risk that counterparty will be unable to or unwilling to meet its obligations under a contract. Credit risk increases when the counterparties are within similar geographical or industry segments. Credit exposures arise principally from loans and advances, debt instruments, and due from banks and other financial institutions. There is also credit risk arising from off-balance sheet credit exposure such as loan commitments. Management carefully manages its exposure to credit risks. The daily credit risk management and control are centralized in the risk management department of head office and reported to management regularly.

The Group performs standardized credit management procedures, including credit due diligence and proposal submission, credit review and approval, loan disbursement, post-lending monitoring and non-performing loan management. The Group enhances its credit risk management by strictly complying with its credit management procedures; strengthening customer investigation, credit rating, lending approval and post-lending monitoring measures; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrading the credit management system.

Apart from the credit risk exposures from loan assets, the credit risk arising from treasury business is managed by selecting counterparties with acceptable credit quality, balancing credit risk and return, referencing to both internal and external credit rating information where available and by applying appropriate credit limits subject to hierarchical authorization and by timely reviewing and adjusting those limit in credit system. In addition, the Group also provides off-balance sheet commitments and financial guarantee services to customers which may require the Group to make payments on behalf of customers upon their failure to perform under the terms of the related contract. Risks arising from loan commitments and financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management policies and procedures.

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.1 Credit risk (continued)

42.1.2 Impairment assessment

In accordance with the “Guideline for Loan Credit Risk Classification” issued by the CBRC, the Group has established a loan credit risk classification system and performs credit risk management based on loan classification in one of five categories. The Group classifies loans into the following five categories: pass, special-mention, substandard, doubtful and loss. Loans classified as substandard, doubtful and losses are regarded as non-performing loans. The primary factors considered in loan impairment assessment include probability of loan repayment and recoverability of principal and interest, which reflect borrowers’ repayment ability, repayment record and intention, projected profitability, bank guarantees or collateral and legal responsibility of repayment. The allowance for impairment losses is assessed collectively or individually, as appropriate.

The five categories of loan classification into which the Group classifies its loans and advances to customers are set out below:

- **Pass:** Borrowers can honor 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 able to service their loans currently, 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 operating income 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:** Only a small portion or none of the principal and interest can be recovered after taking all possible measures and exhausting all legal remedies.

With respect to investments in debt instruments other than financial assets at fair value through profit or loss, the Group assesses for indicators of impairment at the end of each reporting period based on objective evidence and performs impairment assessment individually or collectively, as appropriate.

42.1.3 Risk limit control and mitigation policies

The Group prudently manages and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and regions. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The Group employs a range of policies and practices to mitigate credit risk. The most prevalent of these means to mitigate credit risk taken by the Group include the collaterals acquired, pledged deposits and corporate or individual guarantees.

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.1 Credit risk (continued)

42.1.3 Risk limit control and mitigation policies (continued)

The Group implements guidelines on the acceptability of specific classes of collateral. The principal types of collateral are as follows:

- Residential properties
- Business assets such as premises, inventory and accounts receivable
- Financial instruments such as debt securities and stocks

The fair value of collaterals and pledges should be assessed by professional valuation firms appointed by the Group. The Group has set maximum loan-to-value ratio (ratio of loan balances against fair value of collateral and pledge) for different collaterals and pledges. The principal types of collateral and pledge and maximum loan-to-value ratio for corporate and personal loans and advances are as follows:

Collateral and pledge	Maximum loan-to-value ratio
Time deposits	90%
PRC treasury bonds	90%
Financial institution bonds	80%
Residential property, commercial property, industrial plants and land use rights	70%
Vehicles	60%
General equipment	50%
Special equipment	30%

For loans guaranteed by a third-party guarantor, the Group will assess the financial condition, credit history and ability to meet obligations of the guarantor.

42.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements:

	December 31, 2017	December 31, 2016
Assets		
Balances with central bank	153,629,036	123,959,303
Due from banks and other financial institutions	71,432,438	98,442,129
Financial assets at fair value through profit or loss	46,344,516	23,131,819
Derivative financial assets	4,554,086	4,780,282
Loans and advances to customers	649,816,717	443,668,657
Financial investments		
– Available-for-sale	127,873,959	61,441,941
– Held-to-maturity	91,562,790	41,532,932
– Debt instruments classified as receivables	343,222,781	537,036,109
Other financial assets	18,861,115	5,210,706
Subtotal	1,507,297,438	1,339,203,878

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.1 Credit risk (continued)

42.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements: (continued)

	December 31, 2017	December 31, 2016
Off- balance sheet exposures		
Acceptances	214,386,017	164,360,672
Letters of credit issued	108,503,258	128,676,586
Letters of guarantee issued	40,837,128	43,601,377
Loan commitments	717,025	3,061,032
Unused credit card limit	22,822,115	11,177,797
Subtotal	387,265,543	350,877,464
Total	1,894,562,981	1,690,081,342

The above table represents a worst-case scenario of credit risk exposure to the Group as of December 31, 2017, without taking into account of any related collateral or other credit enhancements. For on-balance-sheet assets, the exposures above are based on net book value as reported in the statement of financial position.

42.1.5 Due from banks and other financial institutions and derivative instruments

The Group's treasury business is exposed to the credit risk associated with the investment business and inter-bank business. The Group manages the credit risk exposures by setting credit limits to the internal credit ratings of its treasury business. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly. As of December 31, 2017, the Group's balance of due from banks and other financial institutions as well as derivative instruments were neither overdue nor impaired (December 31, 2016: nil).

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.1 Credit risk (continued)

42.1.6 Loans and advances to customers

(a) Analysis of loans and advances to customers by industry

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Corporate loans and advances				
Manufacturing	115,674,946	17.19	82,223,489	17.90
Leasing and commercial services	92,900,199	13.81	56,026,555	12.19
Wholesale and retail trade	74,865,365	11.13	64,730,164	14.09
Real estate	73,159,185	10.87	55,305,239	12.04
Administration of water conservancy, environment and public facilities	61,972,488	9.21	23,900,015	5.20
Construction	39,097,951	5.81	26,045,725	5.67
Transportation, storage and postal service	13,858,268	2.06	7,448,445	1.62
Financing	9,371,760	1.39	5,358,641	1.17
Electricity, heat, gas and water production and supply	7,914,379	1.18	6,588,230	1.43
Information transmission, computer services and software	6,890,220	1.03	3,132,538	0.68
Agriculture, forestry, animal husbandry and fishery	4,856,384	0.72	3,837,283	0.84
Accommodation and catering	4,468,664	0.66	3,835,856	0.83
Mining	3,919,123	0.58	4,857,390	1.06
Culture, sports and entertainment	2,541,591	0.38	2,722,151	0.59
Household services and other services	2,424,940	0.36	1,967,475	0.43
Scientific research, technology services and geological prospecting	2,137,302	0.32	1,714,035	0.37
Health, social security and social welfare	1,150,942	0.17	528,407	0.11
Education	835,826	0.12	531,332	0.12
Public administration and social organisations	557,160	0.08	2,447,060	0.53
Discounted bills	20,349,584	3.03	18,024,442	3.92
Total corporate loans and advances	538,946,277	80.10	371,224,472	80.79
Personal loans and advances				
Personal business	88,211,424	13.11	73,203,499	15.93
Residential mortgage loans	28,340,877	4.21	8,812,054	1.92
Others	17,380,356	2.58	6,253,028	1.36
Total personal loans and advances	133,932,657	19.90	88,268,581	19.21
Gross amount of loans and advances before allowance for impairment	672,878,934	100.00	459,493,053	100.00

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.1 Credit risk (continued)

42.1.6 Loans and advances to customers (continued)

(b) Analysis of loans and advances to customers by security type (Gross amount)

	December 31, 2017	December 31, 2016
Collateralized loans	248,456,852	180,846,164
Guaranteed loans	203,506,330	133,982,215
Pledged loans	119,379,949	72,495,022
Unsecured loans	81,186,219	54,145,210
Discounted bills	20,349,584	18,024,442
Total	672,878,934	459,493,053

(c) Analysis of loans and advances to customers by geographical areas (Gross amount)

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Yangtze River Delta region	402,745,180	59.86	243,706,939	53.04
Midwestern China	124,495,153	18.50	93,867,159	20.43
Bohai Rim region	90,467,487	13.44	80,273,764	17.47
Pearl River Delta region	55,171,114	8.20	41,645,191	9.06
Total	672,878,934	100.00	459,493,053	100.00

(d) Analysis of loans and advances to customers by overdue and impaired status

	December 31, 2017		December 31, 2016	
	Corporate loans and advances	Personal loans and advances	Corporate loans and advances	Personal loans and advances
Neither overdue nor impaired	530,808,157	132,817,570	365,323,385	86,910,829
Overdue but not impaired	1,176,919	309,724	685,414	471,404
Impaired	6,961,201	805,363	5,215,673	886,348
Gross	538,946,277	133,932,657	371,224,472	88,268,581
Less: Collective impairment allowances	(15,222,702)	(3,945,374)	(10,264,681)	(2,773,382)
Individual impairment allowances	(3,894,141)	-	(2,786,333)	-
Total allowance	(19,116,843)	(3,945,374)	(13,051,014)	(2,773,382)
Net	519,829,434	129,987,283	358,173,458	85,495,199

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.1 Credit risk (continued)

42.1.6 Loans and advances to customers (continued)

(e) *Loans and advances neither overdue nor impaired*

The credit risk of the portfolio of loans and advances that was neither overdue nor impaired can be assessed by reference to the five-category system adopted.

December 31, 2017	Five categories of loan classification		
	Pass	Special-mention	Total
Corporate loans and advances	522,102,284	8,705,873	530,808,157
Personal loans and advances	132,288,184	529,386	132,817,570
Total	654,390,468	9,235,259	663,625,727

December 31, 2016	Five categories of loan classification		
	Pass	Special-mention	Total
Corporate loans and advances	356,859,022	8,464,363	365,323,385
Personal loans and advances	86,561,195	349,634	86,910,829
Total	443,420,217	8,813,997	452,234,214

(f) *Loans and advances overdue but not impaired*

	December 31, 2017				
	up to 30 days	30 – 60 days	60 – 90 days	over 90 days	Total
Corporate loans and advances	446,249	247,071	29,132	454,467	1,176,919
Personal loans and advances	119,304	67,771	68,620	54,029	309,724
Total	565,553	314,842	97,752	508,496	1,486,643

	December 31, 2016				
	up to 30 days	30 – 60 days	60 – 90 days	over 90 days	Total
Corporate loans and advances	375,698	100,766	122,020	86,930	685,414
Personal loans and advances	90,271	69,787	39,833	271,513	471,404
Total	465,969	170,553	161,853	358,443	1,156,818

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.1 Credit risk (continued)

42.1.6 Loans and advances to customers (continued)

(g) *Loans and advances that is impaired*

The breakdown of the gross amount of impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

	December 31, 2017	December 31, 2016
Corporate loans and advances	6,961,201	5,215,673
Personal loans and advances	805,363	886,348
Total	7,766,564	6,102,021
Fair value of collaterals		
Corporate loans and advances	5,411,527	4,847,943
Personal loans and advances	723,895	878,826
Total	6,135,422	5,726,769

The fair value of collateral is estimated based on the latest external valuations available and adjusted by the experience of realization of the current collateral and the market conditions.

(h) *Overdue loans and advances by overdue days and security type*

	December 31, 2017				
	up to 90 days	90 days to 1 year	1 – 3 years	over 3 years	Total
Unsecured	417,719	284,645	58,690	–	761,054
Guaranteed	196,564	1,102,441	925,397	9,021	2,233,423
Collateralized	550,041	1,771,186	1,319,076	85,730	3,726,033
Pledged	4,260	430,605	34,051	–	468,916
Total	1,168,584	3,588,877	2,337,214	94,751	7,189,426
	December 31, 2016				
	up to 90 days	90 days to 1 year	1 – 3 years	over 3 years	Total
Unsecured	18,125	52,825	2,098	–	73,048
Guaranteed	420,193	981,608	884,443	5,097	2,291,341
Collateralized	674,846	1,506,487	907,960	7,678	3,096,971
Pledged	13,156	19,128	21,648	–	53,932
Total	1,126,320	2,560,048	1,816,149	12,775	5,515,292

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.1 Credit risk (continued)

42.1.6 Loans and advances to customers (continued)

(i) Rescheduled loans and advances

Rescheduled loans are those loans that have revised repayment terms of loan contracts because of deterioration in the financial position of the borrower or of the inability to repay. Rescheduling includes approved debt repayment plans, which adjust and delay repayments. After rescheduling, the previously overdue clients are reset to normal statuses and are managed together with other similar clients. Implementation of rescheduling policies is based on the management's decision to determine the existence of indicators or conditions for which repayments are most likely to continue, and these policies will be reviewed regularly. Rescheduling is commonly applied to term loans, especially medium-term and long-term loans. The balance of the Group's rescheduled loans and advances is as follows:

	December 31, 2017	December 31, 2016
Rescheduled loans and advances	319,099	286,640

42.1.7 Debt instruments

	December 31, 2017				Total
	Held for trading	Available-for-sale	Held-to-maturity	Debt instruments classified as receivables	
RMB					
AAA	2,565,767	5,417,285	12,485,086	–	20,468,138
AA (i)	2,336,083	82,160	107,631	169,775,524	172,301,398
Unrated (ii)	38,158,272	60,976,632	78,970,073	173,447,257	351,552,234
Subtotal	43,060,122	66,476,077	91,562,790	343,222,781	544,321,770
Foreign currencies					
A	–	237,980	–	–	237,980
BBB	677,836	1,562,286	–	–	2,240,122
BB	–	451,246	–	–	451,246
B	137,097	1,213,651	–	–	1,350,748
Unrated(ii)	2,469,461	914,481	–	–	3,383,942
Subtotal	3,284,394	4,379,644	–	–	7,664,038
Total	46,344,516	70,855,721	91,562,790	343,222,781	551,985,808

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.1 Credit risk (continued)

42.1.7 Debt instruments (continued)

	December 31, 2016				
	Held for trading	Available-for-sale	Held-to-maturity	Debt instruments classified as receivables	Total
RMB					
A-1(iii)	140,268	–	–	–	140,268
AAA	717,510	10,763,473	11,426,698	–	22,907,681
AA	1,069,172	387,555	1,070,149	38,817,448	41,344,324
A	–	220,419	–	–	220,419
Unrated (ii)	19,636,071	46,684,040	29,036,085	498,218,661	593,574,857
Subtotal	21,563,021	58,055,487	41,532,932	537,036,109	658,187,549
Foreign currencies					
AAA	334,445	–	–	–	334,445
A	145,740	208,841	–	–	354,581
BBB	363,370	1,042,054	–	–	1,405,424
BB	21,347	433,839	–	–	455,186
B	634,313	1,556,822	–	–	2,191,135
Unrated(ii)	69,583	144,898	–	–	214,481
Subtotal	1,568,798	3,386,454	–	–	4,955,252
Total	23,131,819	61,441,941	41,532,932	537,036,109	663,142,801

(i) Among trust plans and asset management plans of December 31, 2017, the balance of senior tranche asset backed securities with credit rating of AA is RMB169,776 million (December 31, 2016: RMB38,817 million).

(ii) These trust plans and asset management plans are primarily based on guarantees provide by third-party guarantors or guarantees using collaterals. As of December 31, 2017, the sum of principals of the impaired trust plans and asset management plans is RMB794 million, and the balance of impairment allowance is RMB318 million (December 31, 2016: nil).

(iii) At December 31, 2016, among financial assets at fair value through profit or loss, financial assets with an "A-1" debt rating were the Group's short-term financial bonds bought in Year 2016 and the long-term credit rating for these bonds was "AA" and above.

42.1.8 Foreclosed assets

	December 31, 2017	December 31, 2016
Real estate and land use rights	51,000	33,960

Foreclosed assets are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Generally the Group does not occupy foreclosed properties for its business use. Foreclosed assets are presented in other assets in the statement of financial position.

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.1 Credit risk (continued)

42.1.9 Concentration risk analysis for financial assets with credit risk exposure

As of December 31, 2017 and 2016, the majority of the Group's credit risk exposures arising from both on-balance sheet and off-balance sheet items is from Mainland China.

42.2 Market risk

42.2.1 Overview

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. It mainly represents volatility risk arising from interest rates, foreign exchange rates, stocks, commodities and their implied volatility.

Under the principle of unified management, the Group has basically formed a comprehensive market risk management framework, built a whole set of organising system including the board reporting, management monitoring, independent management of risk management department and independent monitoring and reporting of risk monitoring officer from risk management department. The risk management policies and procedures of the Group are formulated based on the nature, size, complexity and risk characteristics of its business, and are consistent with Group's overall business development strategy, management capability and capital strength.

The Group implements limit management on market risks, establishes internal approval procedures and operation procedures for all types and levels of limits, and sets up periodic reviews and updates limits based on business nature, size, complexity and risk tolerance.

Based on business nature and transaction purpose, the Group defines banking book and trading book comprehensively, and applies separate management, taking into account identification, measurement, monitoring and control of banking book and trading book's market risks.

The Group uses the Capital Trading System (SUMMIT system) middle office management module to conduct risk management for trading book, including business processing, sensitivity analysis, value at risk (VaR) analyses, portfolio managements and other functions.

42.2.2 Market analysis measurement techniques

The Group adopts appropriate and market-recognised methods to evaluate exposure of market risk for financial instrument on its banking book and trading book respectively based on reasonable assumptions and parameters.

The Group uses duration analysis, scenario analysis, value at risk (VaR) analysis, and other risk measurement methods to evaluate related market risk of trading book, and re-evaluates trading book position by market capitalization at least once a day. The market risk of banking book is evaluated mainly through sensitivity gap analysis and cash flow analysis. The Group has established a reporting system for the results of market risk measurement and monitoring, and will report the overall market risk to the board of directors and the management on a regular basis.

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Market risk (continued)

42.2.3 Interest rate risk

The major market risk for banking book is interest rate risk. The Group measures interest rate sensitivity gap on a regular basis, evaluates interest rate risk through gap analysis, and further assesses the impact of interest rate changes on net interest income and corporate net value in varied interest rate scenarios.

The Group performs business mainly in Mainland China in accordance with interest rate system set by the PBOC. According to previous experience, the PBOC will adjust benchmark rates for interest-earning loans and interest-bearing deposits in the same direction, but may not be in parallel.

The table below summarizes the Group's exposure to interest rate risks. It includes the Group's on-balance sheet assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
December 31, 2017						
Assets						
Cash and balances with central bank	153,608,035	21,000	-	-	462,405	154,091,440
Due from banks and other financial institutions	68,442,151	2,619,403	370,884	-	-	71,432,438
Financial assets at fair value through profit or loss	6,724,023	16,473,020	14,790,474	8,356,999	-	46,344,516
Derivative financial assets	-	-	-	-	4,554,086	4,554,086
Loans and advances to customers	307,361,619	226,802,657	106,063,214	9,589,227	-	649,816,717
Financial investments						
- Available-for-sale	46,368,479	25,720,904	43,546,902	12,237,674	25,000	127,898,959
- Held-to-maturity	3,248,213	15,932,190	48,664,464	23,717,923	-	91,562,790
- Debt instruments classified as receivables	65,368,259	107,817,308	165,070,772	4,966,442	-	343,222,781
Other financial assets	593,068	2,646,208	5,384,199	281,723	9,955,917	18,861,115
Total assets	651,713,847	398,032,690	383,890,909	59,149,988	14,997,408	1,507,784,842
Liabilities						
Due to other banks and financial institutions	(176,777,183)	(178,678,435)	(1,350,000)	-	-	(356,805,618)
Financial liabilities at fair value through profit or loss	-	-	-	-	(5,615,590)	(5,615,590)
Derivative financial liabilities	-	-	-	-	(5,297,863)	(5,297,863)
Customer deposits	(546,637,352)	(165,781,518)	(146,686,727)	-	(1,513,860)	(860,619,457)
Other financial liabilities	(189,500)	-	-	-	(15,119,421)	(15,308,921)
Debt securities issued	(42,731,706)	(116,651,837)	(21,168,440)	(10,000,000)	-	(190,551,983)
Total liabilities	(766,335,741)	(461,111,790)	(169,205,167)	(10,000,000)	(27,546,734)	(1,434,199,432)
Total interest sensitivity gap	(114,621,894)	(63,079,100)	214,685,742	49,149,988	(12,549,326)	73,585,410

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Market risk (continued)

42.2.3 Interest rate risk (continued)

	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
December 31, 2016						
Assets						
Cash and balances with central bank	123,959,303	-	-	-	309,803	124,269,106
Due from banks and other financial institutions	83,663,629	14,778,500	-	-	-	98,442,129
Financial assets at fair value through profit or loss	661,758	5,758,689	8,948,050	7,763,322	-	23,131,819
Derivative financial assets	-	-	-	-	4,780,282	4,780,282
Loans and advances to customers	143,201,861	219,233,146	77,338,771	3,894,879	-	443,668,657
Financial investments						
- Available-for-sale	1,227,925	4,641,374	34,639,939	20,932,703	25,000	61,466,941
- Held-to-maturity	670,052	3,279,737	21,840,595	15,742,548	-	41,532,932
- Debt instruments classified as receivables	128,131,265	221,760,228	177,773,045	8,245,342	1,126,229	537,036,109
Other financial assets	175,510	69,188	-	-	4,966,008	5,210,706
Total assets	481,691,303	469,520,862	320,540,400	56,578,794	11,207,322	1,339,538,681
Liabilities						
Due to other banks and financial institutions	(207,897,330)	(185,211,491)	(1,000,000)	-	-	(394,108,821)
Financial liabilities at fair value through profit or loss	-	-	-	-	(13,875,609)	(13,875,609)
Derivative financial liabilities	-	-	-	-	(4,126,534)	(4,126,534)
Customer deposits	(429,777,965)	(138,340,938)	(167,482,723)	-	(642,072)	(736,243,698)
Other financial liabilities	(51,405)	(31,404)	-	-	(15,547,415)	(15,630,224)
Debt securities issued	(9,451,353)	(70,501,188)	(24,642,709)	(10,000,000)	-	(114,595,250)
Total liabilities	(647,178,053)	(394,085,021)	(193,125,432)	(10,000,000)	(34,191,630)	(1,278,580,136)
Total interest sensitivity gap	(165,486,750)	75,435,841	127,414,968	46,578,794	(22,984,308)	60,958,545

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Market risk (continued)

42.2.3 Interest rate risk (continued)

The currency for the Group's majority of interest-earning assets and interest-bearing liabilities is RMB. The potential impact on net profit at each financial reporting date stated below with 100 bps changes along the yield curve is as follows:

	December 31, 2017	December 31, 2016
100 bps up along the yield curve	(929,616)	(873,843)
100 bps down along the yield curve	929,616	873,843

For the purpose of the sensitivity analysis, the Group adopts the following assumptions in determining business conditions and financial inputs:

- Analysis is based on static gap at each financial reporting date, regardless of subsequent changes;
- The fluctuations in interest rates of different interest-earning assets and interest-bearing liabilities are the same;
- All assets and liabilities are re-priced in the middle of relevant periods;
- No consideration of impact on customers' behavior resulting from interest rate changes;
- No consideration of impact on market price resulting from interest rate changes;
- No consideration of impact on off-balance sheet business from interest rate changes;
- No consideration of actions taken by the Group with regard to interest rate changes.

Therefore, the actual results on net profit due to changes in interest rates may differ from the analysis above.

42.2.4 Foreign exchange risk

The Group's business is mainly operated in China and settled in RMB. However, The Group's assets and liabilities as well as the transactions denominated in foreign currency are exposed to the foreign exchange risk as the foreign exchange position and cash flows are affected by the fluctuations in the prevailing foreign exchange rates.

The major principle for control over foreign exchange risk of the Group is to match assets and liabilities in different currencies and to keep the risk within limits. Based on the guidelines provided by risk management committee, relevant laws and regulations as well as evaluation on the current market, the Group sets its risk limits and minimizes the possibility of mismatch through more reasonable allocation of foreign currency source and deployment. For the foreign exchange risk exposure generated during trading operations, the Group established strict position limits, risk limits and stop-loss limits.

The tables show the Group's total assets and liabilities at carrying amounts in RMB, categorized by the original currency.

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42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Market risk (continued)

42.2.4 Foreign exchange risk (continued)

	RMB	US Dollar (RMB equivalent)	HK Dollar (RMB equivalent)	Others (RMB equivalent)	Total
December 31, 2017					
Assets					
Cash and balances with central bank	149,265,284	4,819,067	2,654	4,435	154,091,440
Due from banks and other financial institutions	64,126,237	4,276,762	501,609	2,527,830	71,432,438
Financial assets at fair value through profit or loss	43,060,122	2,507,878	-	776,516	46,344,516
Derivative financial assets	4,554,086	-	-	-	4,554,086
Loans and advances to customers	607,446,052	41,290,348	82,083	998,234	649,816,717
Financial investments					
- Available-for-sale	123,519,582	4,154,393	-	224,984	127,898,959
- Held-to-maturity	91,562,790	-	-	-	91,562,790
- Debt instruments classified as receivables	343,222,781	-	-	-	343,222,781
Other financial assets	17,957,359	893,702	229	9,825	18,861,115
Total assets	1,444,714,293	57,942,150	586,575	4,541,824	1,507,784,842
Liabilities					
Due to other banks and financial institutions	(331,108,056)	(25,099,164)	-	(598,398)	(356,805,618)
Financial liabilities at fair value through profit or loss	(5,615,590)	-	-	-	(5,615,590)
Derivative financial liabilities	(5,297,863)	-	-	-	(5,297,863)
Customer deposits	(810,986,458)	(46,839,211)	(248,220)	(2,545,568)	(860,619,457)
Other financial liabilities	(14,810,640)	(496,100)	(12)	(2,169)	(15,308,921)
Debt securities issued	(190,551,983)	-	-	-	(190,551,983)
Total liabilities	(1,358,370,590)	(72,434,475)	(248,232)	(3,146,135)	(1,434,199,432)
Net position	86,343,703	(14,492,325)	338,343	1,395,689	73,585,410
Financial guarantees and credit related commitments	339,110,910	38,211,984	572,060	9,370,589	387,265,543

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Market risk (continued)

42.2.4 Foreign exchange risk (continued)

	RMB	US Dollar (RMB equivalent)	HK Dollar (RMB equivalent)	Others (RMB equivalent)	Total
December 31, 2016					
Assets					
Cash and balances with central bank	119,896,810	4,362,105	7,013	3,178	124,269,106
Due from banks and other financial institutions	87,246,022	3,610,258	7,206,981	378,868	98,442,129
Financial assets at fair value through profit or loss	21,563,021	1,568,798	-	-	23,131,819
Derivative financial assets	4,780,282	-	-	-	4,780,282
Loans and advances to customers	414,528,389	28,919,329	-	220,939	443,668,657
Financial investments					
- Available-for-sale	58,081,738	3,385,203	-	-	61,466,941
- Held-to-maturity	41,532,932	-	-	-	41,532,932
- Debt instruments classified as receivables	537,036,109	-	-	-	537,036,109
Other financial assets	4,973,891	195,464	40,514	837	5,210,706
Total assets	1,289,639,194	42,041,157	7,254,508	603,822	1,339,538,681
Liabilities					
Due to other banks and financial institutions	(371,837,636)	(21,318,941)	-	(952,244)	(394,108,821)
Financial liabilities at fair value through profit or loss	(13,875,609)	-	-	-	(13,875,609)
Derivative financial liabilities	(4,126,534)	-	-	-	(4,126,534)
Customer deposits	(706,116,140)	(29,615,834)	(93,062)	(418,662)	(736,243,698)
Other financial liabilities	(15,379,205)	(250,241)	(19)	(759)	(15,630,224)
Debt securities issued	(114,595,250)	-	-	-	(114,595,250)
Total liabilities	(1,225,930,374)	(51,185,016)	(93,081)	(1,371,665)	(1,278,580,136)
Net position	63,708,820	(9,143,859)	7,161,427	(767,843)	60,958,545
Financial guarantees and credit related commitments	321,425,621	25,328,489	-	4,123,354	350,877,464

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.2 Market risk (continued)

42.2.4 Foreign exchange risk (continued)

The Group's foreign exchange exposure is not material and mainly US dollars and HK dollars. The potential impact on net profit resulting from foreign currency translation gains/(losses) with 1% fluctuation of USD and HKD against RMB is as follows:

	December 31, 2017	December 31, 2016
1% of appreciation of USD against RMB	5,873	708
1% of depreciation of USD against RMB	(5,873)	(708)

For the purpose of the sensitivity analysis, the Group has considered both spot foreign exchange exposure and forward foreign exchange exposure, and adopts the following assumptions in determining business conditions and financial inputs:

- Analysis is based on static gap at each financial reporting date, regardless of subsequent changes;
- No consideration of impact on customers' behavior resulting from exchange rate changes;
- No consideration of impact on market price resulting from exchange rate changes;
- No consideration of actions taken by the Group with regard to exchange rate changes.

Therefore, the actual results on net profit due to changes in exchange rates may differ from analysis above.

42.3 Liquidity risk

42.3.1 Overview

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flows or maturity mismatches of assets and liabilities.

The match between maturity dates of assets and liabilities as well as a bank's ability to replace due liabilities with acceptable costs are all key factors when evaluating its' exposure to liquidity risk.

The Group's assets and liabilities management department manages its liquidity risk through:

- Optimizing asset and liability structure;
- Making projections of future cash flows, and evaluating the appropriate current asset position;
- Maintaining reasonable level of liquidity reserve;
- Performing stress testing on a regular basis.

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Liquidity risk (continued)

42.3.2 Analysis of the undiscounted contractual cash flows

The tables below present the contractual undiscounted cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period:

	Over due	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
December 31, 2017								
Non-derivative financial assets								
Cash and balances with central bank	-	119,216,502	34,920,491	10	21,000	-	-	154,158,003
Due from banks and other financial institutions	-	-	21,236,924	47,255,407	2,721,636	520,624	-	71,734,591
Financial assets at fair value through profit or loss	-	-	-	6,728,434	16,577,487	16,509,573	11,406,945	51,222,439
Loans and advances to customers	6,988,149	-	-	91,993,210	292,107,267	237,863,753	75,495,992	704,448,371
Financial investments								
- Available-for-sale	-	25,000	-	46,573,815	26,287,525	48,140,980	16,142,659	137,169,979
- Held-to-maturity	-	-	-	3,256,566	16,112,765	50,789,911	27,566,016	97,725,258
- Debt instruments classified as receivables	-	-	-	71,050,290	119,449,377	182,450,332	7,541,276	380,491,275
Other financial assets	-	3,705,841	-	5,539	511,365	41,410	2,142	4,266,297
Total non-derivative financial assets	6,988,149	122,947,343	56,157,415	266,863,271	473,788,422	536,316,583	138,155,030	1,601,216,213
December 31, 2017								
Non-derivative financial liabilities								
Due to other banks and financial institution	-	-	(37,276,556)	(141,519,968)	(186,411,677)	(1,782,689)	-	(366,990,890)
Financial liabilities at fair value through profit or loss	-	(149,272)	-	(5,466,318)	-	-	-	(5,615,590)
Customer deposits	-	(1,513,860)	(460,461,715)	(87,786,885)	(167,930,085)	(163,540,885)	-	(881,233,430)
Other financial liabilities	-	(1,521,453)	-	(708,657)	(546,436)	(1,936,670)	(295,209)	(5,008,425)
Debt securities issued	-	-	-	(44,139,576)	(122,329,955)	(23,853,652)	(11,140,000)	(201,463,183)
Total non-derivative financial liabilities	-	(3,184,585)	(497,738,271)	(279,621,404)	(477,218,153)	(191,113,896)	(11,435,209)	(1,460,311,518)
Net liquidity	6,988,149	119,762,758	(441,580,856)	(12,758,133)	(3,429,731)	345,202,687	126,719,821	140,904,695

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Liquidity risk (continued)

42.3.2 Analysis of the undiscounted contractual cash flows (continued)

	Over due	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
December 31, 2016								
Non-derivative financial assets								
Cash and balances with central bank	-	106,400,672	17,924,951	-	-	-	-	124,325,623
Due from banks and other financial institutions	-	-	17,187,727	66,783,338	15,168,615	-	-	99,139,680
Financial assets at fair value								
through profit or loss	-	-	-	687,735	6,008,912	10,022,194	9,122,834	25,841,675
Loans and advances to customers	4,464,086	-	-	62,585,248	236,708,408	148,827,597	20,749,328	473,334,667
Financial investments								
- Available-for-sale	-	25,000	200,000	1,048,183	4,709,341	37,280,087	23,160,465	66,423,076
- Held-to-maturity	-	-	-	685,355	3,388,958	23,405,517	17,096,396	44,576,226
- Debt instruments classified as receivables	-	-	-	133,466,391	236,789,112	184,835,791	8,941,818	564,033,112
Other financial assets	10,000	75,682	-	166,191	69,698	-	-	321,571
Total non-derivative financial assets	4,474,086	106,501,354	35,312,678	265,422,441	502,843,044	404,371,186	79,070,841	1,397,995,630
	Over due	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
December 31, 2016								
Non-derivative financial liabilities								
Due to other banks and financial institution	-	-	(57,533,437)	(151,874,694)	(189,419,835)	(1,324,800)	-	(400,152,766)
Financial liabilities at fair value								
through profit or loss	-	(29,560)	-	(1,644,625)	(12,201,424)	-	-	(13,875,609)
Customer deposits	-	-	(301,295,418)	(81,339,648)	(187,935,342)	(171,931,226)	-	(742,501,634)
Other financial liabilities	-	(3,286,979)	-	(51,405)	(31,404)	-	-	(3,369,788)
Debt securities issued	-	-	-	(10,214,233)	(72,235,919)	(28,737,691)	(11,800,000)	(122,987,843)
Total non-derivative financial liabilities	-	(3,316,539)	(358,828,855)	(245,124,605)	(461,823,924)	(201,993,717)	(11,800,000)	(1,282,887,640)
Net liquidity	4,474,086	103,184,815	(323,516,177)	20,297,836	41,019,120	202,377,469	67,270,841	115,107,990

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42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Liquidity risk (continued)

42.3.3 Derivative financial instruments cash flow

The Group's derivative financial instruments are either settled on a net basis or a gross basis.

(a) *Derivatives settled on a net basis*

The Group's derivatives that will be settled on a net basis include interest rate swaps.

The table below analyzes the Group's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet as of December 31, 2017, to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Total
December 31, 2017					
Interest rate swaps					
– outflow	(10,717)	(17,905)	(62,300)	(1,101,626)	(1,192,548)
– inflow	3,468	11,873	63,336	975,289	1,053,966
Total	(7,249)	(6,032)	1,036	(126,337)	(138,582)
	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Total
December 31, 2016					
Interest rate swaps					
– outflow	(8,523)	(18,911)	(173,324)	(1,144,127)	(1,344,885)
– inflow	7,940	19,236	144,564	1,041,066	1,212,806
Total	(583)	325	(28,760)	(103,061)	(132,079)

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Liquidity risk (continued)

42.3.3 Derivative financial instruments cash flow (continued)

(b) Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include foreign exchange forwards, foreign exchange swaps and currency swaps.

The table below analyzes the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet as of December 31, 2017, to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Total
December 31, 2017					
Foreign exchange derivatives					
- outflow	(84,299,799)	(110,310,380)	(270,882,338)	(8,379,931)	(473,872,448)
- inflow	78,587,240	116,022,565	270,282,913	8,335,141	473,227,859
Total	(5,712,559)	5,712,185	(599,425)	(44,790)	(644,589)
	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Total
December 31, 2016					
Foreign exchange derivatives					
- outflow	(36,929,775)	(46,723,582)	(112,106,052)	(5,441,423)	(201,200,832)
- inflow	36,929,543	46,544,660	113,044,253	5,434,653	201,953,109
Total	(232)	(178,922)	938,201	(6,770)	752,277

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Liquidity risk (continued)

42.3.4 Maturity analysis

The tables below summarize the maturity analysis of assets and liabilities by remaining contractual maturities based on the carrying amount at the end of each reporting year.

	Over due	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
December 31, 2017								
Assets								
Cash and balances with central bank	-	119,157,518	34,912,912	10	21,000	-	-	154,091,440
Precious metal	-	12,382,513	-	-	-	-	-	12,382,513
Due from banks and other financial institutions	-	-	21,236,924	47,205,227	2,619,403	370,884	-	71,432,438
Financial assets at fair value								
through profit or loss	-	-	-	6,724,023	16,473,020	14,790,474	8,356,999	46,344,516
Derivative financial assets	-	-	-	1,058,897	2,429,956	1,065,233	-	4,554,086
Loans and advances to customers	6,942,996	-	-	86,459,662	280,121,346	219,170,006	57,122,707	649,816,717
Financial investments								
- Available-for-sale	-	25,000	-	46,368,479	25,720,904	43,546,902	12,237,674	127,898,959
- Held-to-maturity	-	-	-	3,248,213	15,932,190	48,664,464	23,717,923	91,562,790
- Debt instruments classified as receivables	-	-	-	65,368,259	107,817,308	165,070,772	4,966,442	343,222,781
Other assets, including deferred income tax assets	35,260	18,098,935	38,512	2,803,836	5,253,098	8,378,827	837,394	35,445,862
Total assets	6,978,256	149,663,966	56,188,348	259,236,606	456,388,225	501,057,562	107,239,139	1,536,752,102
Liabilities								
Due to other banks and financial institution	-	-	(37,315,251)	(139,461,932)	(178,678,435)	(1,350,000)	-	(356,805,618)
Financial liabilities at fair value through profit or loss	-	(149,272)	-	-	(5,466,318)	-	-	(5,615,590)
Derivative financial liabilities	-	-	-	(1,549,871)	(2,567,908)	(1,180,084)	-	(5,297,863)
Customer deposits	-	(1,513,860)	(459,050,794)	(87,586,558)	(165,781,518)	(146,686,727)	-	(860,619,457)
Other liabilities, including deferred income tax liability	(331,297)	(1,557,718)	(5,734,982)	(12,127,639)	(4,155,782)	(3,922,595)	(343,824)	(28,173,837)
Debt securities issued	-	-	-	(42,731,706)	(116,651,837)	(21,168,440)	(10,000,000)	(190,551,983)
Total liabilities	(331,297)	(3,220,850)	(502,101,027)	(283,457,706)	(473,301,798)	(174,307,846)	(10,343,824)	(1,447,064,348)
Net liquidity gap	6,646,959	146,443,116	(445,912,679)	(24,221,100)	(16,913,573)	326,749,716	96,895,315	89,687,754

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Liquidity risk (continued)

42.3.4 Maturity analysis (continued)

	Over due	Indefinite	On Demand	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Total
December 31, 2016								
Assets								
Cash and balances with central bank	-	106,348,030	17,921,076	-	-	-	-	124,269,106
Precious metal	-	3,952,824	-	-	-	-	-	3,952,824
Due from banks and other financial institutions	-	-	17,187,727	66,475,902	14,778,500	-	-	98,442,129
Financial assets at fair value through profit or loss	-	-	-	661,758	5,758,689	8,948,050	7,763,322	23,131,819
Derivative financial assets	-	-	-	1,048,613	2,581,854	1,149,815	-	4,780,282
Loans and advances to customers	4,422,340	-	-	57,903,637	226,946,340	139,058,027	15,338,313	443,668,657
Financial investments								
- Available-for-sale	-	25,000	200,000	1,027,925	4,641,374	34,639,939	20,932,703	61,466,941
- Held-to-maturity	-	-	-	670,052	3,279,738	21,840,594	15,742,548	41,532,932
- Debt instruments classified as receivables	-	-	-	129,322,643	223,353,472	175,826,014	8,533,980	537,036,109
Other assets, including deferred income tax assets	11,646	8,387,657	34,385	2,623,331	3,220,370	1,975,525	320,806	16,573,720
Total assets	4,433,986	118,713,511	35,343,188	259,733,861	484,560,337	383,437,964	68,631,672	1,354,854,519
Liabilities								
Due to other banks and financial institution	-	-	(57,533,437)	(150,363,892)	(185,211,492)	(1,000,000)	-	(394,108,821)
Financial liabilities at fair value through profit or loss	-	(29,560)	-	(1,644,625)	(12,201,424)	-	-	(13,875,609)
Derivative financial liabilities	-	-	-	(1,213,742)	(1,633,921)	(1,278,871)	-	(4,126,534)
Customer deposits	-	-	(294,980,363)	(83,999,269)	(189,327,337)	(167,731,645)	(205,084)	(736,243,698)
Other liabilities, including deferred income tax liability	-	(12,340)	(1,654,747)	(16,557,460)	(5,896,207)	(227,733)	(80,742)	(24,429,229)
Debt securities issued	-	-	-	(9,451,353)	(70,501,188)	(24,642,709)	(10,000,000)	(114,595,250)
Total liabilities	-	(41,900)	(354,168,547)	(263,230,341)	(464,771,569)	(194,880,958)	(10,285,826)	(1,287,379,141)
Net liquidity gap	4,433,986	118,671,611	(318,825,359)	(3,496,480)	19,788,768	188,557,006	58,345,846	67,475,378

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.3 Liquidity risk (continued)

42.3.5 Off-balance sheet items

December 31, 2017	Within 1 year	1-5 years	Over 5 years	Total
Acceptances	214,386,017	–	–	214,386,017
Letters of credit	108,490,545	12,713	–	108,503,258
Letters of guarantee issued	26,497,599	14,042,078	297,451	40,837,128
Loan commitments	617,025	100,000	–	717,025
Unused credit limit	22,822,115	–	–	22,822,115
Total	372,813,301	14,154,791	297,451	387,265,543

December 31, 2016	Within 1 year	1-5 years	Over 5 years	Total
Acceptances	164,360,672	–	–	164,360,672
Letters of credit	128,575,111	101,475	–	128,676,586
Letters of guarantee issued	37,054,403	6,546,974	–	43,601,377
Loan commitments	3,061,032	–	–	3,061,032
Unused credit limit	11,177,797	–	–	11,177,797
Total	344,229,015	6,648,449	–	350,877,464

42.4 Fair values of financial assets and liabilities

(a) Fair value hierarchy

IFRS 13 specifies a hierarchy of fair value measurement based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1: Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Hong Kong Stock Exchange).
- Level 2: Using observable inputs other than quoted prices for assets or liabilities within Level 1, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes over-the-counter derivatives and debt instruments traded in interbank market. The input parameters like bond yield curve or counterparty credit risk are based on data from China Bond and Bloomberg.
- Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.4 Fair values of financial assets and liabilities (continued)

(b) Financial instruments not measured at fair value

Financial assets and liabilities in the statement of financial position which are not measured at fair value mainly include: balances with the central bank, due from banks and other financial institutions, loans and advances to customers, financial investments-held-to-maturity, financial investments-debt instruments classified as receivables, due to banks and other financial institutions, deposits from customer deposits and debt securities issued.

The table below summarizes the carrying amounts and fair values of those financial assets and financial liabilities that are not measured at fair value, including financial investments-held-to-maturity, financial investments-debt instruments classified as receivables and debt securities issued. For the other financial instruments not measured at fair value in the statement of financial position, their fair value approximates carrying amount.

	Carrying value	December 31, 2017 Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– Held-to-maturity	91,562,790	–	89,367,221	–	89,367,221
Financial investments					
– Debt instruments classified as receivables	343,222,781	–	104,098,843	239,226,123	343,324,966
Total	434,785,571	–	193,466,064	239,226,123	432,692,187
Financial liabilities					
Debt securities issued	(190,551,983)	–	(190,551,983)	–	(190,551,983)

	Carrying value	December 31, 2016 Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Financial investments					
– Held-to-maturity	41,532,932	–	41,537,769	–	41,537,769
Financial investments					
– Debt instruments classified as receivables	537,036,109	–	442,442,602	96,174,457	538,617,059
Total	578,569,041	–	483,980,371	96,174,457	580,154,828
Financial liabilities					
Debt securities issued	(114,595,250)	–	(115,910,000)	–	(115,910,000)

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.4 Fair values of financial assets and liabilities (continued)

(b) Financial instruments not measured at fair value (continued)

(i) *Held-to-maturity investments and debt instruments classified as receivables*

Held-to-maturity investments and debt instruments classified as receivables whose fair value is based on quoted market prices are included in level 1. If the quoted market prices are determined by reference to instruments with similar credit risk, maturity and yield characteristics where applicable, the fair value measurement will be included in level 2. When such information is not available and the estimated fair value represents the discounted amount of estimated future cash flows expected to be received are based on unobservable yield curves, the fair value measurement will be included in level 3.

(ii) *Debt securities issued*

If the fair value of debt securities issued is based on quoted market prices, it will be included in level 1. When the fair value of debt securities issued is determined by valuation techniques and all significant inputs required to calculate fair value are observable, it is included in level 2.

(c) Financial instruments measured at fair value

December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	46,344,516	–	46,344,516
Derivative financial assets	–	4,554,086	–	4,554,086
Financial investments – Available-for-sale				
– Debt securities available for sale	–	61,110,773	–	61,110,773
– Fund investment	–	57,018,238	–	57,018,238
– Equity investment	–	–	25,000	25,000
– Trust plan and asset management plan	–	9,744,948	–	9,744,948
Total	–	178,772,561	25,000	178,797,561
Financial liabilities at fair value				
through profit or loss	–	(5,615,590)	–	(5,615,590)
Derivative financial liabilities	–	(5,297,863)	–	(5,297,863)
Total	–	(10,913,453)	–	(10,913,453)

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.4 Fair values of financial assets and liabilities (continued)

(c) Financial instruments measured at fair value (continued)

December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
– Debt securities	–	23,131,819	–	23,131,819
Derivative financial assets	–	4,780,282	–	4,780,282
Financial investments – Available-for-sale				
– Debt securities	–	61,283,045	–	61,283,045
– Interbank certificates of deposit	–	158,896	–	158,896
– Equity investment	–	–	25,000	25,000
Total	–	89,354,042	25,000	89,379,042
Financial liabilities at fair value				
through profit or loss	–	(13,875,609)	–	(13,875,609)
Derivative financial liabilities	–	(4,126,534)	–	(4,126,534)
Total	–	(18,002,143)	–	(18,002,143)

The Group uses valuation techniques to determine the fair value of financial instruments when open quotation in active markets is not available. The main parameters used in valuation techniques for financial instruments held by the Group include bond prices, interest rates, foreign exchange rates, equity and stocks prices, volatilities, correlations, early repayment rates, counterparty credit spreads and others, which are basically observable and obtainable from open market.

Notes to Consolidated Financial Statements

42 FINANCIAL RISK MANAGEMENT (continued)

42.5 Capital management

The core of the Group's Capital Management is capital adequacy ratio and return on capital. The objective of capital management is to meet external regulatory requirements and shareholders' return, protect the interests of creditors to the best effort, stimulate expansion of assets and improve risk management.

The Group prudently determines the objectives of capital adequacy ratio which meets the regulatory requirements and coincides with its own risk exposure. By taking a variety of actions such as limit management, the Group ensures the realization of the management objectives. In addition, the Group proactively adjusts its capital structure in line with economic development and risk characteristics. Generally, the measure of capital structure adjustment includes modification of dividend distribution plan, raising new capital and issuance of new bonds.

The Group monitors the capital adequacy rate regularly based on regulations issued by the CBRC. The Group reports the required capital information to the CBRC on a quarterly basis.

Core tier-one capital includes paid-in capital, capital reserve, surplus reserve, general risk preparation, undistributed retained earnings, and non-controlling shareholders' capital that could be included in core tier-one capital. Other tier-one capital includes other tier-one capital instruments and their premiums, and non-controlling shareholders' capital that could be included in other tier-one capital. Tier-two capital includes tier-two capital instruments and their premiums, the allowable portion of excessive allowance for loan losses, and non-controlling shareholders' capital that could be included in tier-two capital. The primary regulatory deduction item in the calculation of the capital adequacy ratio is other intangible assets (excluding land use rights).

Effective from January 1, 2013, the Group started to implement the CBRC's regulation of 'Administrative Measures for the Capital of Commercial Banks (Trial Implementation)' which was issued on June 7, 2012. The capital adequacy ratio as of December 31, 2017 under the 'Trial Implementation' is as follows:

	December 31, 2017	December 31, 2016
Total capital	109,890,152	85,912,841
Including: Core tier-one capital	74,653,783	67,706,445
Other tier-one capital	15,004,755	-
Tier-two capital	20,231,614	18,206,396
Deduction: other intangible assets	(203,101)	(268,702)
Total capital, net of deductions	109,687,051	85,644,139
Total core tier-one capital, net of deductions	74,450,682	67,437,743
Total tier-one capital, net of deductions	89,455,437	67,437,743
Total risk-weighted assets	898,580,080	726,578,153
Core tier-one capital adequacy ratio	8.29%	9.28%
Tier-one capital adequacy ratio	9.96%	9.28%
Capital adequacy ratio	12.21%	11.79%

Notes to Consolidated Financial Statements

43 FIDUCIARY ACTIVITIES

The Group provides custody and trustee services to third parties, and grants entrusted loans on behalf of third-party lenders. They are as follows:

	December 31, 2017	December 31, 2016
Entrusted loans	79,789,738	74,557,069
Entrusted investments	1,639,460	400,000

44 SUBSEQUENT EVENTS

Up to the date of this report, the Group had no material events for disclosure after the balance sheet date.

45 STATEMENT OF FINANCIAL POSITION OF THE BANK

	December 31, 2017	December 31, 2016
ASSETS		
Cash and balances with central bank	154,070,430	124,269,106
Precious metal	12,382,513	3,952,824
Due from banks and other financial institutions	71,032,294	98,442,129
Financial assets at fair value through profit or loss	46,344,516	23,131,819
Derivative financial assets	4,554,086	4,780,282
Loans and advances to customers	649,816,717	443,668,657
Financial investments		
– Available-for-sale	127,898,959	61,466,941
– Held-to-maturity	91,562,790	41,532,932
– Debt instruments classified as receivables	343,222,781	537,036,109
Investment in subsidiaries	1,530,000	–
Property, plant and equipment	6,258,700	3,045,701
Deferred income tax assets	7,304,012	4,601,026
Other assets	14,054,589	8,926,993
Total assets	1,530,032,387	1,354,854,519
LIABILITIES		
Due to banks and other financial institutions	354,325,922	394,108,821
Financial liabilities at fair value through profit or loss	5,615,590	13,875,609
Derivative financial liabilities	5,297,863	4,126,534
Customer deposits	860,436,430	736,243,698
Income tax payable	2,850,550	2,560,351
Other liabilities	22,783,475	21,868,878
Debt securities issued	190,551,983	114,595,250
Total liabilities	1,441,861,813	1,287,379,141

Notes to Consolidated Financial Statements

45 STATEMENT OF FINANCIAL POSITION OF THE BANK (continued)

	December 31, 2017	December 31, 2016
EQUITY		
Share capital	17,959,697	17,959,697
Other equity Instruments	14,957,664	–
Capital reserve	19,974,808	19,990,020
Surplus reserve	4,882,975	3,790,406
Statutory general reserve	17,243,730	13,242,456
Investment revaluation reserve	(1,553,817)	(300,478)
Retained earnings	14,705,517	12,793,277
Total equity	88,170,574	67,475,378
Total liabilities and equity	1,530,032,387	1,354,854,519

The financial statements were approved by the Board of Directors on March 26, 2018 and were signed on its behalf by:

Shen Renkang

Legal Representative,
Chairman of Board

Liu Xiaochun

Vice Chairman of Board,
President

Notes to Consolidated Financial Statements

46 STATEMENT OF FINANCIAL POSITION OF THE BANK

	Share capital	Other equity instrument	Capital reserve	Surplus reserve	Statutory general reserve	Investment revaluation reserve	Retained earnings	Total
Balance at January 1, 2017	17,959,697	-	19,990,020	3,790,406	13,242,456	(300,478)	12,793,277	67,475,378
Net profit for the year	-	-	-	-	-	-	10,925,687	10,925,687
Other comprehensive income for the year	-	-	-	-	-	(1,253,339)	-	(1,253,339)
Total comprehensive income	-	-	-	-	-	(1,253,339)	10,925,687	9,672,348
Other equity instruments issued	-	14,957,664	(15,212)	-	-	-	-	14,942,452
Appropriation to statutory surplus reserve	-	-	-	1,092,569	-	-	(1,092,569)	-
Appropriation to statutory general reserve	-	-	-	-	4,001,274	-	(4,001,274)	-
Cash dividend	-	-	-	-	-	-	(3,919,604)	(3,919,604)
Balance at December 31, 2017	17,959,697	14,957,664	19,974,808	4,882,975	17,243,730	(1,553,817)	14,705,517	88,170,574
Balance at January 1, 2016	14,509,697	-	12,181,167	2,775,091	8,241,258	958,448	10,991,403	49,657,064
Net profit for the year	-	-	-	-	-	-	10,153,148	10,153,148
Other comprehensive income for the period	-	-	-	-	-	(1,258,926)	-	(1,258,926)
Total comprehensive income	-	-	-	-	-	(1,258,926)	10,153,148	8,894,222
Issuance of new shares	3,450,000	-	7,808,853	-	-	-	-	11,258,853
Appropriation to statutory surplus reserve	-	-	-	1,015,315	-	-	(1,015,315)	-
Appropriation to statutory general reserve	-	-	-	-	5,001,198	-	(5,001,198)	-
Cash dividend	-	-	-	-	-	-	(2,334,761)	(2,334,761)
Balance at December 31, 2016	17,959,697	-	19,990,020	3,790,406	13,242,456	(300,478)	12,793,277	67,475,378

Unaudited Supplementary Financial Information

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

1 LIQUIDITY RATIOS

	December 31, 2017	December 31, 2016
(Expressed in percentage)		
RMB current assets to RMB current liabilities	51.61	41.63
Foreign currency current assets to foreign currency current liabilities	28.20	77.80

The liquidity ratios are calculated in accordance with the relevant provisions of the PBOC and CBRC.

2 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, international claims are the sum of cross-border claims in local claims in foreign currencies and all currencies.

International claims include balances with central banks, due from banks and other financial institutions, placements with and loans to banks and other financial institutions, financial assets at fair value through profit or loss, loans and advances to customers, available-for-sale financial assets.

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfer is 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.

December 31, 2017	Bank	Official sector	Non-bank private sector	Total
Local claims in foreign currencies	8,873,987	–	39,831,771	48,705,758
Asia Pacific excluding Mainland China	74,968	–	4,050,331	4,125,299
– of which attributed to Hong Kong	45,572	–	4,050,331	4,095,903
Europe	739,598	–	–	739,598
North America	2,331,328	–	–	2,331,328
Oceania	98,514	–	–	98,514
Total	12,118,395	–	43,882,102	56,000,497

December 31, 2016	Bank	Official sector	Non-bank private sector	Total
Local claims in foreign currencies	12,705,670	–	33,357,486	46,063,156
Asia Pacific excluding Mainland China	30,961	52,750	705,582	789,293
– of which attributed to Hong Kong	8,866	–	705,582	714,448
Europe	756,930	–	–	756,930
North America	2,044,796	334,446	–	2,379,242
Oceania	20,745	–	–	20,745
Total	15,559,102	387,196	34,063,068	50,009,366

Unaudited Supplementary Financial Information

3 CURRENCY CONCENTRATIONS

	Equivalent in RMB			Total
	US Dollars	HK Dollars	Others	
As at December 31, 2017				
Spot assets	57,536,972	586,346	4,531,999	62,655,317
Spot liabilities	(71,938,375)	(248,220)	(3,143,966)	(75,330,561)
Forward purchases	65,841,403	–	3,217,462	69,058,865
Forward sales	(4,427,354)	(7,564,302)	(71,413,466)	(83,405,122)
Net options position	528,476	–	(4,050)	524,426
Net long/(short) position	47,541,122	(7,226,176)	(66,812,021)	(26,497,075)
	Equivalent in RMB			
	US Dollars	HK Dollars	Others	Total
As at December 31, 2016				
Spot assets	42,041,157	7,254,508	603,822	49,899,487
Spot liabilities	(51,185,016)	(93,081)	(1,371,665)	(52,649,762)
Forward purchases	106,794,322	–	7,398,517	114,192,839
Forward sales	(90,463,150)	–	(7,427,441)	(97,890,591)
Net options position	(60,668)	–	(285)	(60,953)
Net long/(short) position	7,126,645	7,161,427	(797,052)	13,491,020

4 OVERDUE AND RESCHEDULED ASSETS

(1) Gross amount of overdue loans and advances to customers

	December 31, 2017		December 31, 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 3 months	1,168,584	16.25	1,126,320	20.42
Between 3 and 6 months	1,153,107	16.04	903,626	16.39
Between 6 and 12 months	2,435,770	33.88	1,656,422	30.03
Over 12 months	2,431,965	33.83	1,828,924	33.16
Total	7,189,426	100.00	5,515,292	100.00

(2) Overdue and rescheduled loans and advances to customers

	December 31, 2017	December 31, 2016
Total rescheduled loans and advances to customers	319,099	286,640
Including: rescheduled loans and advances to customers overdue for not more than 3 months	269,597	165,846
Percentage of rescheduled loans and advances to customers overdue for not more than 3 months in total loans	0.04%	0.04%

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