华夏银行
HUAXIA BANK

2017

HUA XIA BANK CO., LIMITED

Annual Report

CONTENTS

Chairman of the Board: Li Minji

MESSAGE FROM CHAIRMAN FOR THE ANNUAL REPORT 2017

In 2017, Hua Xia Bank upheld the Party leadership and earnestly studied the core messages conveyed at the 19th CPC National Congress and the Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era. On this basis, we brought the leading role of our Party Committee into full play, and focused our efforts on solving the acute problems confronting the bank-wide development. As a result, our reform, development and Party building work achieved new progress and entered a new chapter together.

2017 was the first year of implementing our new four-year development program. Despite all sorts of challenges and pressures, our employees worked hard to overcame obstacles and secure concrete accomplishments with unprecedented enthusiasm. Thanks to their endeavors, we realized the targets set by the Board of Directors on all fronts. Specifically, our deposits grew faster, asset-liability structure improved steadily, profitability performed as well as expected, and asset quality got stabilized virtually. Besides, we pushed ahead with our strategy of developing into a financial service provider for SMEs, secured robust business development, and created a sound corporate image. To sum up, our work witnessed remarkable progress in all respects.

Hereby, I would like to extend my great respect and sincere gratitude to the public, shareholders, senior management and entire staff on behalf of our Party Committee and the Board of Directors.

In 2018, China starts to act on the guiding principles of the 19th CPC National Congress and Hua Xia Bank will see its four-year development program carrying forward a new paragraph. In this context, we will boost our confidence and take solid steps to propel our reform and development towards continuous new progress.

With a firm grip of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, we will push forward with our Party building by taking a clear-cut stand. As a state-owned joint-stock commercial bank, we must uphold the Party leadership, and never cease to strengthen the Party building. The efforts for leadership development, team recruitment and business growth will underpin our bank-wide reform and development drive politically, ideologically, organizationally and intellectually.

We will take firm actions to advance the development program and realize quality development. With respect to the four-year development program, we will attach equal importance to comprehensive promotion and breakthrough made in major areas, so that it can be executed firmly. To realize the coordinated development of scale, quality and benefit, we will make increasing efforts to attract more customers, get funds from more low-cost sources, keep a tighter reign on various risk, strictly control the increase in non-performing assets, make sure such assets can be disposed of as prescribed by applicable laws and regulations, enhance asset quality fundamentally, keep improving profitability, and become more capable of replenishing internal capital, withstanding risks, and pursuing sustainable development.

We will resolutely return to the ultimate mission of delivering financial services. While taking serving the real economy and social development financially as our mission, we proactively weight more financial resources toward the major fields and weak links relating to the development of economy and society. At the same time, we work hard to develop into the lead bank that serves the coordinated development of the Beijing-Tianjin-Hebei region financially, and also a unique capital-based financial institution that undertakes such major tasks as building Beijing into four centers, relieving it of functions non-essential to its role as the capital of China, making preparations for the upcoming Winter Olympics, and constructing Xiongan New Area.

We will remain committed to improving profitability, optimizing structure, reducing cost and increasing efficiency. By focusing our efforts on streamlining the asset-liability structure, we will bring out more benefits from improved resource allocation, make a good start from both ends of assets and liabilities, and push forward the group-level asset-liability management with the reasonably allocated resources. In the meantime, by refining the cost-income structure, we will increasing benefits through generating more income and reducing cost. We will also seize the strategic opportunities brought by the switch of drivers for economic growth, the continuously growing consumption demand, and the transforming and upgrading consumption structure, to foster important engines that boost the income and profit growth. While conducting meticulous cost management, we will exercise tighter control over budget and input-output ratio from such perspectives as operating cost control and adjustment of expenditure structure.

We will stand firm with the market-based development roadmap and spare no effort to develop financial technologies. To this end, we will gather pace in refining our organizational structure so that the organizational reform can advance in a way needed by our effort toward market-based operations. At the same time, we will develop financial technologies at a faster pace, transform ourselves into digital bank as soon as possible, launch innovative products and services backed by financial technologies, and do better in independent development and innovation with technologies playing the leading role. By introducing the reform of operating institution, we will explore a suitable development path and operational pattern with innovative practices and experiments so that differences can be turned into features, thus boosting the bank-wide business growth.

Spearheaded by the business philosophy that advocates lawful and compliant operations, we are dedicated to intensified internal control compliance management. While continuing to build the compliance culture, we push ahead with compliance education, focus our efforts on up-to-standard operations and intensified management, carry out corporate governance and business operation according to laws and regulations in a compliant manner, and always refrain ourselves from overstepping the bottom lines marked out by regulators and markets. By advocating lawful operations and taking requirements for internal control compliance management seriously, we will adopt concrete actions to reinforce the internal control compliance management as a response to the increasingly stringent regulation, in a bid to create a secure, stable and orderly environment for our further development.

Chairman of the Board: Li Minji

President: Zhang Jianhua

MESSAGE FROM PRESIDENT FOR THE ANNUAL REPORT 2017

In 2017, Hua Xia Bank earnestly implemented the requirements raised by the Party committees and governments of the state, Beijing and places where branches are located, acted in strict compliance of regulatory policies, and resolutely executed the decisions and deployments made by the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the Party Committee of the Bank. In practice, we remained committed to serving the real economy and creating more value for customers and shareholders, and upheld the new development philosophy and the guiding principle of "striving for progress while keeping stability". We boosted our confidence and rose to tough challenges. In the process, every of our employees showed no hesitation no matter what they were faced up with. Instead, they always demonstrated the persistence in what they pursued and the competence for weathering difficulties and realizing innovative development. Thanks to their unremitting efforts, we accomplished all operating and growth targets set for the year, and made a good start for the new planning period.

Business size and efficiency increased steadily. As of the end of 2017, our total assets amounted to RMB2.5 trillion, representing an increase of 6.48% over the beginning of the year; our total loans reached RMB1.39 trillion, up 14.58% over the beginning of the year; and our deposit balance went up by 4.79% from the beginning of the year to RMB1.43 trillion. At the same time, we generated a fee-based business income worth RMB20,763 million, an increase of 27.53% over the beginning of the year. Besides, such indicators as asset size, NPL ratio and total profit all beat the targets set out by the Board of Directors; and our CAR, allowance-to-NPL ratio and other indicators all met regulatory requirements.

The income and business structure was optimized consistently. Our business lines including credit card, international business and financial markets developed rapidly, and funds operated in an optimized structure. As a result, our profitability grew impressively. The fee-based business income represented 31.28% of our total income, up 5.85 percentage points year on year. At the same time, our cost management effort produced good effects. While generating more income, we also worked harder to control cost, with the cost-to-income ratio decreasing by 1.54 percentage points to 32.96%. As our strategy for "becoming a financial service provider for SMEs" went deeper, our loans to micro and small-sized enterprises had reached the regulatory requirements on "no less than three thresholds" for four consecutive quarters of the year, and the percentage of personal loans in the total went up continuously.

We took an active part in serving state strategies. Specifically, we continued to serve the coordinated development of the Beijing-Tianjin-Hebei region financially, took the lead in setting up outlets in Xiongan New Area, and accelerated releasing new types of financing programs and instruments, which included a dedicated foundation in support of building Xiongan New Area, a construction foundation for the 2022 Winter Olympics in Zhangjiakou, and an innovative financing program for air pollution prevention and control in the Beijing-Tianjin-Hebei region. In the meantime, we rolled out a host of innovative international business products including non-local presentation express and remittance express for customers in the Beijing-Tianjin-Hebei region. Customers who signed ETC contracts and Beijing-Tianjin-Hebei coordination card holders grew rapidly in consequence. Besides, we shored up efforts to contribute to the economic and social development of Beijing, cemented our partnerships with 16 districts of the city and state-owned enterprises (SOEs) affiliated to the municipal government, created financial service agencies targeted at cultural and creative industries, got involved with the establishment of Beijing Municipal Technological and Innovative Foundation, and set up the mother fund for jointly operating investments and loans at Zhongguancun. By doing so, we offered the financial services that integrated investment, financing and loan together to technological and cultural companies based in Beijing. Furthermore, we optimized the network of correspondent banks, by developing more correspondent banks in the countries and regions along with the Belt and Road, extending more credits to these countries and regions, and intensifying interaction and cooperation with them.

We continued to improve the service quality and efficiency. We launched the new direct banking with internet attributes, the inter-bank fund management cloud platform, and the internet-based platform targeted at micro and small-sized enterprises. At the same time, we did more to team up with trusts, securities, insurances, funds and emerging financial institutions, advanced the preparations for establishing a consumer finance company, and promoted the Hong Kong Representative Office to a branch. While casting the service brand of "Green Growth, Beautiful Hua Xia", we promoted green credit to grow at a faster pace. A host of charitable projects carried out by us were highly recognized by the public, which included the "Hua Xia Star" charitable platform and training camp for small business owners and Hua Xia Bank foundation for growth of children of sanitation workers. In 2017, we won the "Award for Best Green Finance under the Category of Social Responsibilities" from China Banking Association and the "China Social Responsibility Philanthropy Award" from xinhuanet.com.

In 2018, faced up with the still severe and complicated external environment, we will hold high the banner of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, act on the core messages conveyed on the 19th CPC National Congress and the Central Economic Work Conference on all fronts, and center on the three major tasks, namely serving the real economy, forestalling financial risks and pushing ahead with financial reform. While making sure our operations in strict compliance with related laws and regulations, we will exercise stricter management, gather pace in reform, and implement the new development program on all fronts, in a bid to accomplish all operational tasks and objectives set forth by the Board of Directors and strive to develop into a modern financial group that is large, strong, stable and outstanding!

President: Zhang Jianhua

IMPORTANT NOTICE

i. The Board of Directors, the Board of Supervisors, Directors, Supervisors and Senior Management members of Hua Xia Bank Co., Limited (the "Company") undertake that the information in this report is authentic, accurate and complete and contains no false record, misleading statement or material omission, and assume joint and several liabilities thereto.

ii. The Annual Report 2017 of Hua Xia Bank Co., Limited and its Summary were reviewed and approved at the 36th Meeting of the Seventh Board of Directors of the Company on 18 April 2018. 15 of the 18 Directors that should attend the meeting were present actually. Vice Chairman Li Ruge and Directors Wang Hongjun and Lin Zhiyong were absent due to official affairs, and they entrusted Directors Ding Shilong, Zou Libin and Zhang Wei to exercise the right to vote respectively. Therefore, there were 18 valid votes. Five Supervisors attended the meeting as non-voting delegates.

iii. Profit distribution plan for the reporting period that was reviewed by the Board of Directors:

With 12,822,686,653 shares outstanding of the Company at the end of 2017 as the base number, cash dividends will be distributed to all of the shareholders at RMB1.51 (before tax) per 10 shares.

For details, please refer to "Section V Significant Events".

iv. The 2017 financial statements of the Company have been audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP in accordance with Chinese auditing standards, with standard unqualified auditor's report being issued.

v. Li Minji, Chairman of the Board of Directors of the Company, Zhang Jianhua, President of the Company, Guan Wenjie, Principal of Financial Affairs of the Company, and Ji Chunquan, Person-in-charge of the Accounting Department of the Company, hereby warrant that the financial statements contained in the Annual Report are authentic, accurate and complete.

vi. Expressions related to the future business plan herein may constitute forward-looking statements, but they are not the Company's actual commitment to investors. Readers are cautioned not to place undue reliance on these forward-looking statements in making any investment decision, but should be fully aware of the risks and properly understand the differences between plan, forecast and commitment.

vii. Important risk notice: The Company has described the risks that may adversely affect the fulfillment of the Company's future development strategies and business objectives. Please refer to risk-related part in "Section IV Operating Discussion and Analysis".

Should there be any discrepancy between the English version and the Chinese version,the latter shall prevail.

SECTION I DEFINITIONS

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

The Group	Hua Xia Bank Co., Limited and its subsidiaries
The Company, the Bank, Hua Xia Bank	HUA XIA BANK CO., Limited
CBRC	China Banking Regulatory Commission (now China Banking and Insurance Regulatory Commission)
CSRC	China Securities Regulatory Commission
MOF	Ministry of Finance of the People’s Republic of China
Yuan	RMB

SECTION II COMPANY PROFILE AND MAJOR FINANCIAL INDICATORS

I. Legal name in Chinese: 华夏银行股份有限公司
Chinese abbreviation: 华夏银行
Legal name in English: HUA XIA BANK CO., Limited

II. Legal Representative: Li Minji

III. Secretary to the Board of Directors: Zhao Junxue
Securities affairs representative: Zhang Taiqi
Address: Hua Xia Bank Mansion, 22 Jianguomennei Street, Dongcheng District, Beijing
Postal code: 100005
Tel: 010-85238570, 85239938
Fax: 010-85239605
Email: zhdb@hxb.com.cn

IV. Registered address: 22 Jianguomennei Street, Dongcheng District, Beijing
Business address: Hua Xia Bank Mansion, 22 Jianguomennei Street, Dongcheng District, Beijing
Postal code: 100005
Website: http://www.hxb.com.cn, http://www.95577.com.cn
Email: zhdb@hxb.com.cn

V. Newspaper designated for disclosure of information: *China Securities Journal, Shanghai Securities News and Securities Times*
Website designated by CSRC for publication of the annual report: http://www.sse.com.cn
Location where copies of this annual report are kept: Office of the Board of Directors of the Company

VI. Place where share is listed: Shanghai Stock Exchange
Stock name of ordinary A-share: 华夏银行
Stock code of ordinary A-share: 600015
Stock name of preference share: 华夏优1
Stock code of preference share: 360020

VII. Other relevant information:
Name of depositary of shares of the Company: Shanghai Branch of China Securities Depositary and Clearing Co., Ltd.
Name of accounting firm the Company engaged: Deloitte Touche Tohmatsu Certified Public Accountants LLP
Business address: 30/F Bund Center, 222 Yan An Road East, Shanghai, China
Signed CPAs: Fan Lihong & Li Jie
Sponsor institution for continuous supervision: CSC Financial Co., Ltd.
Office address: 9/F, Tower B, Metro World Center, No. 2 Chaonei Avenue, Dongcheng District, Beijing
Signed sponsor representatives: Lv Xiaofeng & Sui Yuyao
Period of continuous supervision: 31 January 2017 to 31 December 2017

VIII. MAJOR PROFIT INDICATORS OF THE YEAR

(Unit: RMB1 million)

Item	2017
Gross profit	26,253
Net profit attributable to equity holders of the listed company	19,819
Net profit attributable to equity holders of the listed company after deduction of extraordinary profit and loss	19,737
Operating profit	26,117
Investment loss/(gain)	-1,527
Net non-operating income and expenditure	136
Net cash flows from operating activities	-87,828
Net change of cash and cash equivalents:	-149,214

Extraordinary Profit and Loss Items and Amounts

(Unit: RMB1 million)

Extraordinary profit and loss item	2017	2016	2015
(Profit)/loss from the disposal of fixed assets	-9	-10	32
Other net operating income and expenses	136	134	239
Total extraordinary profit and loss	127	124	271
Less: Income tax influence of extraordinary profit and loss	44	35	76
Extraordinary profit and loss, net	83	89	195
Less: Influence of extraordinary profit and loss attributable to minority shareholders of the Company, net (after-tax)	1	5	4
Extraordinary profit and loss attributable to ordinary shareholders of the Company	82	84	191

Note: The extraordinary profit and loss are identified and calculated in accordance with the *Explanatory Notice on Information Disclosure by Companies that Offer Securities to the Public No.1 – Extraordinary Profit and Loss (2008)*.

IX. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS IN THE PAST THREE YEARS

i. Main accounting data

(Unit: RMB1 million)

Main accounting data	2017	2016	Increase/decrease compared with previous year (%)	2015
Operating income	66,384	64,015	3.70	58,876
Operating profit	26,117	26,109	0.03	24,966
Gross profit	26,253	26,243	0.04	25,205
Net profit attributable to equity holders of the listed company	19,819	19,677	0.72	18,883
Net profit attributable to equity holders of the listed company after deduction of extraordinary profit and loss	19,737	19,593	0.73	18,692
Net cash flows from operating activities	-87,828	139,912	-162.77	48,380
	End of 2017	End of 2016	Increase/decrease compared with the end of previous year (%)	End of 2015
Total assets	2,508,927	2,356,235	6.48	2,020,604
Total Liabilities	2,339,429	2,203,262	6.18	1,902,216
Owner's equity attributable to equity holders of the listed company	168,055	152,184	10.43	117,678
Total share capital	12,823	10,686	20.00	10,686

ii. Major financial indicators

Major financial indicator	2017	2016	Increase/decrease compared with previous year (%)	2015
Basic earnings per share (in RMB)	1.48	1.53	-3.27	1.47
Diluted earnings per share (in RMB)	1.48	1.53	-3.27	1.47
Basic earnings per share after deduction of extraordinary profit and loss (in RMB)	1.47	1.53	-3.92	1.46
Weighted average return on equity (%)	13.54	15.75	Down 2.21 percentage points	17.18
Weighted average return on net assets after deduction of extraordinary profit and loss (%)	13.48	15.68	Down 2.20 percentage points	17.01
Net cash flow per share from operating activities (in RMB)	-6.85	10.91	-162.79	3.77
	End of 2017	End of 2016	Increase/decrease compared with the end of previous year (%)	End of 2015
Net assets per share attributable to ordinary shareholders of the listed company (in RMB)	11.55	10.31	12.03	9.18
Liability/asset ratio (%)	93.24	93.51	Down 0.27 percentage points	94.14

Supplementary financial ratios

Item	2017	2016	2015
Net interest spread (%)	1.88	2.29	2.40
Net interest margin (%)	2.01	2.42	2.56

Notes:

1. Relevant indicators are calculated according to the *Explanatory Notice on Information Disclosure by Companies that Offer Securities to the Public No.1 – Extraordinary Profit and Loss (2008), the Standards Concerning the Contents and Formats of Information Disclosure by Companies that Offer Securities to the Public No. 2 — Contents and Formats of Annual Reports (Revision 2017), and the Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.9 – Computation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010)*.

2. According to the *Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.9 – Computation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010)* released by CSRC, net assets per share attributable to equity holders of the listed company, basic earnings per share and net cash flow per share from operating activities during each comparable period were recalculated on the basis of adjusted shares as the Company's capital reserve was transferred to share capital during the reporting period.

3. The Company distributed a cash dividend totaling RMB840 million to preference shareholders in March 2017. While calculating the basic earnings per share and the weighted average return on equity (ROE), it takes into account the distribution of dividend to preference shareholders.

4. Liability/asset ratio is calculated by dividing total liabilities by total assets.

5. Net interest spread is the spread between yield on average balance of interest-generating assets and cost on average balance of interest-bearing liabilities.

6. Net interest margin is calculated by dividing net interest income by the average balance of interest-generating assets.

X. MAJOR FINANCIAL INDICATORS OF 2017 BY QUARTER

(Unit: RMB1 million)

Item	Q1	Q2	Q3	Q4
Operating income	16,331	17,017	16,724	16,312
Net profit attributable to equity holders of the listed company	4,499	5,337	4,391	5,592
Net profit attributable to equity holders of the listed company after deduction of extraordinary profit and loss	4,487	5,332	4,372	5,546
Net cash flows from operating activities	7,489	-47,169	-61,000	12,852

XI. SCHEDULE TO THE INCOME STATEMENT

Profit of the reporting period	Weighted average return on equity (%)	Earnings per share (in RMB)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	13.54	1.48	1.48
Net profit attributable to ordinary shareholders of the Company after deducting extraordinary profit and loss	13.48	1.47	1.47

Note: Calculated according to the *Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.9 – Computation and Disclosure of Return on Net Assets and Earnings per Share (Revision 2010)*.

XII. CHANGES IN SHAREHOLDERS' EQUITY DURING THE REPORTING PERIOD

(Unit: RMB1 million)

Item	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General risk reserve	Retained profit	Minority shareholders' equity	Total shareholders' equity
Balance at the beginning of the period	10,686	19,978	28,762	22	9,771	24,605	58,360	789	152,973
Increase during the period	2,137	–	–	–	1,932	5,450	19,819	654	29,992
Decrease during the period	–	–	2,137	1,174	–	–	10,156	–	13,467
Balance at the end of the period	12,823	19,978	26,625	-1,152	11,703	30,055	68,023	1,443	169,498

Major reasons for changes in shareholders' equity:

1. According to the annual plan on strengthening capital base with capital reserve, the increase in "share capital" and the decrease in "capital reserve" were attributed to the conversion of capital reserve into share capital during the reporting period.

2. "Other comprehensive income" changed due to the effect (after tax) of changes in fair value of available-for-sale financial assets on owner's equity.

3. According to the annual profit distribution plan, the Company set aside surplus reserve and general risk reserve and distributed cash dividends to all of the shareholders, so "surplus reserve" and "general risk reserve" increased but "retained profit" decreased.

4. The increase of "retained profit" was due to the realization of net profit during the reporting period.

5. The increase of "minority shareholders' equity" was due to more share capital gained by and net profit earned by the Group's non-wholly-controlled subsidiary during the reporting period.

XIII. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

(Unit: RMB1 million)

Item	Balance at the beginning of the period	Balance at the end of the period	Change during the period	Effect on profit of the period
Financial assets at fair value through profit or loss	4,939	3,206	-1,733	-14
Available-for-sale financial assets	92,170	110,230	18,060	–
Derivative financial instruments	-290	1,560	1,850	1,850
Total	96,819	114,996	18,177	1,836

SECTION III BUSINESS OVERVIEW

I. MAIN BUSINESSES, BUSINESS MODEL AND INDUSTRIES OF THE COMPANY DURING THE REPORTING PERIOD

i. Main businesses, major products and their usage, business model and key performance drivers

As at the end of the reporting period, the main business scope of the Company covers: public deposit-taking, granting of short, medium and long-term loans; domestic and international settlement, bill acceptance and discount, issuance of financial bonds, issuance, encashment and underwriting of government bonds as an agent, trading of government bonds and financial bonds, inter-bank lending and borrowing, trading of foreign exchange on its own behalf and as an agent, bank card service, provision of letter of credit and letter of guarantee, collection and payment service as an agent, safe deposit box service, foreign exchange settlement and sale, sideline insurance agency and other services approved by China Banking Regulatory Commission ("CBRC").

The Company provided enterprises with financing and cash management services through such business series as credit business, asset management, financial markets, asset custody and "cash management toolkit".

The Company purveyed individualized, diversified and network-based financial services including deposit, loan, wealth management, fund, insurance, precious metal and credit card to individuals and also developed mass wealth management, elderly finance, community finance and going-abroad finance brands.

Please refer to "Discussion and Analysis of Operations—Business Review" of the report for details.

ii. Industry's development stage, cyclical characteristics and the Company's position in the industry

In 2017, as a result of the steadily growing demand, the solidly progressing supply-side structural reform, and the quickened transition from old drivers of growth to new ones, the Chinese economy put an end to decelerated growth in the past consecutive six years and revealed a stably upward trend. Internationally, the world economy continued its recovery, delivered an overall performance better than expected, and saw exports on the continuous rise. Domestically, the Chinese economy got stabilized and improved, as evidenced by the positive changes in the economic structure, the steadily transition from old drivers of growth to new ones, the phase-out of overcapacity in the manufacturing industry, the increasing industry concentration, and the remarkably improved corporate profits. Fueled by the upward macroeconomic conditions, the global banking industry took on a noted pickup. Looking back to the Chinese banking sector, its net profit growth rate got stabilized and picked up, net interest margin dropped at a smaller range, non-performing loan (NPL) pressure eased somewhat, and overall risk stayed under control. In 2017, the operations of Chinese banking sector were characterized as below: assets and liabilities grew at a continuously lowered pace; both interest margin and interest spread saw their drop narrowing down while profitability remained stable with a slight decline; the percentage of non-interest income started to decrease against the backdrop of stringent regulation; and the growing momentum in NPL balance and ratio weakened, with asset quality further improved.

Both China and the world are in the midst of profound changes arising from the deepening de-leveraging drive and the continuously tightened regulation in the finance sector. In response to such a backdrop, the Company earnestly acted on the core messages forwarded on the 19th CPC National Congress and the National Financial Work Conference, upheld the underlying principle of pursuing progress while ensuring stability, and remained committed to the new development philosophy. At the same time, it returned to its original aspirations, stayed laser-focused on its principal business, made intensified efforts in marketing and business innovation, forestalled various risks, kept a tight reign on non-performing assets, and worked hard to serve the real economy and supply-side structure reform in a way with both quality and effect assured. As a result of all these efforts, it realized the solid, sound development, retained a stable market share among peer banks, and saw its integrated ranking on the stable rise in the international banking industry.

II. MATERIAL CHANGES IN PRIME ASSETS OF THE COMPANY DURING THE REPORTING PERIOD

The Group's prime assets include loans and advances granted, held-to-maturity investments, account receivable held for investment, cash and balances with central banks, and available-for-sale financial assets. At the end of the reporting period, the loans and advances granted totaled RMB1,394,082 million, up RMB177,428 million or 14.58% over the beginning of the year; the financial assets held under resale agreements stood at RMB40,203 million, down RMB81,829 million or 67.06% over the beginning of the year; and the due from banks posted RMB56,866 million, down RMB76,914 million or 57.49% over the beginning of the year. The major reason for the materials changes in the above assets was that the Bank reduced the scale of interbank business as required by regulators and drove up the scale of loans steadily.

III. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

Clear development strategy: Upon the entry into a new phase of development, the Company developed the *2017-2020 Development Program of Hua Xia Bank* (the Development Program), outlining the development vision, strategic positioning and strategic priorities of the Company. The core contents of the Development Program are "strategic positioning in three aspects", "six strategic priorities" and "two strategies for business development". To be specific, "strategic positioning in three aspects" refer to customer positioning, business positioning and regional positioning, which point out the strategic directions towards which the Company will develop; "six strategic priorities" are promoting innovation in financial technologies, highlighting the development of retail business, improving the planning for integrated operations, developing into the lead bank that serves the Beijing-Tianjin-Hebei region financially, deepening the role as the financial service provider for small and medium-sized enterprises (SMEs), and forging the featured business segments represented by green finance, all of which serve as crucial measures to sharpen the core competitiveness of the Company; and "two strategies for business development" mean putting deposits at the heart of banking operations and shoring up risk management, both of which underpin the sustained, sound development of the Company. The Company has put in place a whole set of prioritized development strategies, which make it much clearer about key links, areas, and directions, and ensure that the development goals can be realized as scheduled.

High-quality financial services for SMEs: The Company pinpointed its position as a financial service provider for SMEs in 2013. Since then, it has kept pushing forward the strategy of becoming such a service provider. Specifically, a host of innovations were made in operational and management mechanism, business mode, products, services and other aspects. As a result, there emerged a service mechanism where professional and specialized financial services could be offered to micro and small-sized enterprises (MSEs). At the same time, these services were delivered to more target customers and made them increasingly satisfied. As a result, the Company kept ahead of its peers in serving SMEs. Spearheaded by the strategy of becoming a financial service provider for SMEs, the Company successively developed and rolled out an array of industry-leading products including annually reviewed loans, online loans and e-commerce loans, and created a mix of O2O featured products that supported both online and offline operations and were suitable for MSEs and private business owners. By doing so, it could provide MSEs with a full package of one-stop, professional, and featured financial services.

Strong regional competitiveness: Upholding the working principles of seeking for coordinated development of the Beijing-Tianjin-Hebei region by taking root in Beijing, serving key customers and making breakthroughs with joint efforts, the Company gathered its pace in developing itself into the lead bank that served the Beijing-Tianjin-Hebei region financially. While fully leveraging on its advantages in financial innovation, the Company pooled together resources of multiple sources to set up a dedicated service system, and focused its efforts on major links and fields including integrated traffic development in the region, industry transfer and upgrade, environmental protection and pollution treatment, and relief of Beijing's functions non-essential to its role as China's capital. At the same time, it allocated more resources in support of building a sub-administrative center for the Beijing municipal government, and prioritized supporting the upgrade of cultural tourism, the construction of industry bases, the renovation of shanty towns and other key projects. It helped to relieve Beijing of functions non-essential to its role as the country's capital, supported the industry transfer and upgrade in particular, and made full use of featured products and services to offer financial services as needed. Additionally, it also spared no efforts to facilitate the ecological protection and green development in the region. By carrying out the innovative financing project for air pollution prevention and control, it strove to create a brand of "green bank".

Vigorous planning of financial technologies: The Company gained an in-depth understanding of how strategically important a faster transformation of financial technologies was for its operation and management. Driven by such comprehension, it actively promoted innovation in financial technologies and transformed itself towards a digital bank at a faster pace. While pinpointing the starting points and priorities of financial technologies, the Company proposed a vision of "smart finance, digital Hua Xia" that featured real-time interconnectivity, natural interaction, digital driver of growth, and in-depth intelligence, and determined a strategy for innovative development where digital transformation and internet banking platform functioned as two wheels. To lose no opportunities brought by financial technologies for the transformative development of the banking industry, the Company fully exploited its own advantages, made overall planning and carried out targeted practice with respect to financial technologies from such perspectives as strategies, mechanisms, technological application, and innovative research. By doing so, it aimed to create its new core value in the era of financial technologies and deliver better financial services to customers.

SECTION IV DISCUSSION AND ANALYSIS OF OPERATIONS

I. DISCUSSION AND ANALYSIS OF OPERATIONS

During the reporting period, the Company upheld the underlying principle of pursuing progress while ensuring stability, remained committed to the philosophy of "innovative, coordinated, green, open and shared development", worked hard to serve the real economy with both quality and effect assured and enhance the risk management standards, and gathered pace in reform and innovation as well as transformation and development. As a result of these efforts, it delivered an impressive business performance and realized the operational objectives for the year on all fronts.

i. Steady business expansion

At the end of the reporting period, the Group's total assets reached RMB2,508,927 million, an increase of RMB152,692 million or 6.48% over the beginning of the year; total loans increased by RMB177,428 million or 14.58% to RMB1,394,082 million; and deposit balance increased by RMB65,607 million or 4.79% to RMB1,433,907 million.

ii. Stable business performance

During the reporting period, net profit attributable to equity holders of the listed company stood at RMB19,819 million, an increase of RMB142 million compared with the same period of previous year. Fee-based business income increased by RMB4,482 million or 27.53% compared with the same period of previous year to RMB20,763 million. Return on assets (ROA) and return on equity (ROE) were 0.82% and 13.54%, respectively.

iii. The business structure improved stably

First, income structure further improved. Rapid development of such business as credit card, international business, and financial markets helped to intensify product marketing efforts, optimize the structure of fund operations, and realize great profit increase. As a result, the fee-based business income accounted for 31.28% of the total income, up 5.85 percentage points year on year. Second, cost management achieved good results. While taking active steps to increase income, the Company also worked harder to control cost. The cost-to-income ratio went down by 1.54 percentage points to 32.96%. Third, the Company continued to push forward the strategy of becoming a financial service provider for SMEs. The loans to MSEs met the regulatory requirements on "no less than three thresholds".

iv. Channel building as well as service delivery went on with quality and effect better assured

First, business and service channels kept improving. The Company launched the new direct banking with internet attributes, the inter-bank fund management cloud platform, and the internet-based platform targeted at MSEs. Second, comprehensive financial services saw their standards lifted further. The Company did more to team up with trusts, securities, insurances, funds and emerging financial institutions, by setting up cooperation platforms and inking strategic cooperation agreements. At the same time, it also advanced the preparations for establishing a consumer finance company and promoted the Hong Kong Representative Office to a branch. Third, green financial services made sound progress. While creating the service brand of "Green Growth, Beautiful Hua Xia", the Company saw the balance of green credits reached RMB53,248 million, up 17.41% over the beginning of the year. Fourthly, intensified efforts were made to undertake corporate social responsibilities (CSRs). A host of charitable projects carried out by the Company were highly recognized by the public, which included the "Hua Xia Star" charitable platform and training camp for small business owners and Hua Xia Bank foundation for growth of children of sanitation workers. In 2017, the Company won the "Award for Best Green Finance under the Category of Social Responsibilities" from China Banking Association and the "China Social Responsibility Philanthropy Award" from xinhuanet.com.

v. Better alignment with state strategies

First, the Company continued to provide better financial services for the coordinated development of the Beijing-Tianjin-Hebei region. Specifically, it took the lead in setting up outlets in Xiongan New Area and creating a dedicated foundation worth RMB20 billion in support of its building. At the same time, it also invested nearly RMB24 million in the Venue Construction Foundation for the 2022 Winter Olympics in Zhangjiakou, the Innovative Financing Program for Air Pollution Control in the Beijing-Tianjin-Hebei region and other projects. Besides, the number of customers that had signed ETC contracts in the region rose by 12.72%. Second, efforts were intensified to serve the economic and social development of Beijing as the capital of China. Closely centering on the initiative of building four centers, the Company cemented its partnerships with 16 districts of the city and state-owned enterprises (SOEs) affiliated to the municipal government, created financial service agencies targeted at cultural and creative industries, got involved with the establishment of Beijing Municipal Technological and Innovative Foundation, and set up the mother fund for joint operations of investments and loans at Zhongguancun. In the meantime, it also offered the financial services that integrated investment, financing and loan together, and launched such innovative businesses as Intellectual Property-backed Loan, High-tech Easy Loan, and Entrepreneurship Easy Loan. Third, the Company optimized the network of correspondent banks, by developing more correspondent banks in the countries and regions along with the Belt and Road, extending more credits to these countries and regions, and intensifying interaction and cooperation with them. In 2017, there emerged 32 new correspondent banks, 81% of which were distributed along the Belt and Road.

vi. Risk control and compliance management went deeper

First, better comprehensive risk management measures were introduced. The Company improved its risk management assessment mechanism, launched a comprehensive risk management platform, worked harder to build risk management teams, and continued to strengthen the comprehensive risk control. Second, various risks were put under better management. Liquidity, market, country, public opinion and other risks were monitored, assessed and controlled with increasingly improved mechanisms. A continuous management system came in place, thus enhancing business continuity and outsourcing-related risk management continuously. Thirdly, internal control and compliance management was pushed forwarded constantly. While actively acting on the deployments made by CBRC for the ten crackdowns (against “Three Interest Arbitrages”, “Three Breaches” and “Four Improper Actions”), the Company put various fraud prevention measures in practice, made efforts to improve the fraud prevention mechanism, forestalled money-laundering risk, and continued to develop the compliance culture. As a result, it laid an increasingly solid foundation for compliance, fraud prevention and anti-money laundering (AML).

II. BUSINESS HIGHLIGHTS

i. Analysis of principal activity

During the reporting period, the Group recorded an operating income of RMB66,384 million and a net profit attributable to equity holders of the list company of RMB19,819 million, a year-on-year increase of 3.70% and 0.72%, respectively. The rise was mainly because the business size expanded steadily, the structure of assets and liabilities continued to improve, and the cost management achieved positive results.

1. Analysis of major indicators

(Unit: RMB1 million)

Item	2017	2016	Change (%)
Operating income	66,384	64,015	3.70
Operating profit	26,117	26,109	0.03
Net profit attributable to equity holders of the listed company	19,819	19,677	0.72
Net change of cash and cash equivalents	-149,214	-71,563	N/A

2. Breakdowns by geographical area

(Unit: RMB1 million)

Regions	Operating income	Change compared with previous year (%)	Operating profit	Change compared with previous year (%)
Northern China and Northeastern China	35,268	15.86	15,907	1.46
Eastern China	12,811	-8.48	4,709	5.51
Central China and Southern China	10,995	-2.60	3,202	5.89
Western China	7,313	-11.77	2,302	-21.81
Offset among segments	-3	N/A	-3	N/A
Total	66,384	3.70	26,117	0.03

3. Changes in operating income

(Unit: RMB1 million)

Business type	2017	Percentage (%)	Increase/ decrease compared with previous year (%)
Interest income from loans and advances	62,506	51.51	4.19
Interest income from held-to-maturity investments	13,380	11.03	52.83
Interest income from account receivable held for investment	12,026	9.91	65.69
Interest income from available-for-sale financial assets	3,615	2.98	17.91
Interest income on due from central banks	3,383	2.79	1.96
Interest income from deposits in other financial institutions	2,160	1.78	29.34
Interest income from financial assets held under resale agreements	1,687	1.39	-41.16
Interest income from placements with banks and other financial institutions	1,275	1.05	31.31
Interest income of financial assets designated at fair value through profit or loss	200	0.17	-42.36
Fee income	20,447	16.85	26.81
Other business	659	0.54	78.11
Total	121,338	100.00	15.85

4. Explanations on reasons for major changes in profit composition, principal operation and structure, profitability of principal operation from the previous reporting period

Not applicable.

5. Analysis on cash flows of the Company

As at the end of the reporting period, net flow of cash and cash equivalents of the Group was RMB149,214 million of net cash outflows. Of these, net cash outflow from operating activities stood at RMB87,828 million, which was mainly used to balance the structure of assets and liabilities and improve the utilization efficiency of funds on the premise of controllable risks. Net cash outflow from investing activities amounted to RMB103,384 million, mainly due to expansion of investment; net cash inflow from financing activities stood at RMB42,660 million mainly because of the issuance of tier-2 capital bonds and financial bonds.

ii. Explanation on material changes in profit due to non-principal operation

Not applicable.

iii. Analysis of changes in financial indicators

1. Changes in major financial indicators and the reasons

(Unit: RMB1 million)

Major financial indicator	At the end of the reporting period	Increase/decrease compared with the end of previous year (%)	Main reason
Total assets	2,508,927	6.48	Asset business growth
Total Liabilities	2,339,429	6.18	Liability business growth
Owner's equity attributable to equity holders of the listed company	168,055	10.43	Net profit of the reporting period transferred in
Major financial indicator	**Reporting period**	**Increase/decrease compared with previous year (%)**	**Main reason**
Operating income	66,384	3.70	Business size expanded and income grew
Operating profit	26,117	0.03	Business size expanded and operating profit grew
Net profit attributable to equity holders of the listed company	19,819	0.72	Business size expanded and net profit grew
Net change of cash and cash equivalents	-149,214	N/A	Investment scaled-up

2. Items with over 30% changes in the comparative accounting statements

(Unit: RMB1 million)

Major accounting item	At the end of the reporting period	Increase/decrease compared with the end of previous year (%)	Main reason
Due from banks	56,866	-57.49	Due from banks decreased
Financial assets at fair value through profit or loss	3,206	-35.09	Held-for-trading financial assets decreased
Derivative financial assets	3,256	305.48	Derivative financial assets increased
Financial assets held under resale agreements	40,203	-67.06	Financial assets held under resale agreements decreased
Other assets	11,792	102.79	Other assets increased
Derivative financial assets	1,696	55.17	Derivative financial liabilities increased
Financial assets sold under repurchase agreements	70,002	-34.39	Financial assets sold under repurchase agreements decreased
Debt obligations payable	369,689	37.85	Bonds and interbank negotiable certificates of deposit were issued
Other comprehensive income	-1,152	-5,336.36	Net fair value changes of available -for-sale financial assets
Minority shareholders' equity	1,443	82.89	Minority shareholders' equity increased
Major accounting item	**Reporting period**	**Increase/decrease compared with previous year (%)**	**Main reason**
Interest expense	52,914	34.80	Interest expense increased
Fee and commission expenses	2,040	38.96	Fee and commission expenses increased
Investment gains/(losses)	-1,527	-312.97	Gains on investments decreased
Gains/(losses) from the changes in fair value	1,836	N/A	Fair value changed
Exchange gains	284	118.46	Exchange gains increased
Tax and surcharges	754	-61.15	Business tax decreased due to the impact of the change from business tax to VAT
Other business costs	46	228.57	Other business costs increased
Non-operating expenses	71	86.84	Non-operating expenses increased
Minority shareholders' gains/losses	114	44.30	Minority shareholders' gains/ losses increased

iv. Analysis of major income statement items

1. Interest income

(Unit: RMB1 million)

Item	2017		2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Corporate loans and advances	50,631	50.51	49,433	56.02
Personal loans and advances	11,658	11.63	9,726	11.02
Discounted bills	217	0.22	831	0.94
Held-to-maturity investments	13,380	13.35	8,755	9.92
Account receivable held for investment	12,026	12.00	7,258	8.23
Available-for-sale financial assets	3,615	3.61	3,066	3.48
Balances with central banks	3,383	3.38	3,318	3.76
Due from banks	2,160	2.15	1,670	1.89
Financial assets held under resale agreements	1,687	1.68	2,867	3.25
Placements with banks and other financial institutions	1,275	1.27	971	1.10
Financial assets at fair value through profit or loss	200	0.20	347	0.39
Total	100,232	100.00	88,242	100.00

2. Interest expense

(Unit: RMB1 million)

Item	2017		2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Deposits taken	20,725	39.17	22,519	57.37
Debt obligations payable	13,960	26.38	6,094	15.52
Due to banks and other financial institutions	10,157	19.19	5,685	14.48
Due to central banks	3,347	6.33	1,726	4.40
Placements from banks and other financial institutions	2,374	4.49	1,808	4.61
Financial assets sold under repurchase agreements	1,782	3.37	1,413	3.60
Others	569	1.07	8	0.02
Total	52,914	100.00	39,253	100.00

3. Fee and commission income

(Unit: RMB1 million)

Item	2017		2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Bank card business	8,229	40.25	4,999	31.00
Wealth management service	6,981	34.14	5,840	36.22
Credit commitments	1,734	8.48	1,460	9.05
Agency business	1,544	7.55	1,838	11.40
Custody and other fiduciary services	969	4.74	890	5.52
Leasing service	522	2.55	572	3.55
Other business	468	2.29	525	3.26
Total	20,447	100.00	16,124	100.00

4. Operation and administrative expenses

(Unit: RMB1 million)

Item	2017		2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Staff remuneration and welfare	12,198	55.76	13,260	60.04
Business expenses	6,573	30.04	5,886	26.65
Depreciation and amortization	3,107	14.20	2,940	13.31
Total	21,878	100.00	22,086	100.00

5. Income tax expenses

(Unit: RMB1 million)

Item	2017	2016
Pre-tax profit	26,253	26,243
Income tax at statutory tax rate of 25%	6,563	6,561
Plus: Tax effect of non-deductible expense	1,419	1,312
Less: Tax effect of tax-exempt income	1,662	1,386
Total	6,320	6,487

v. Analysis of assets

1. Loan extensions

(1) Loan extensions by industry

(Unit: RMB1 million)

Industry	At the end of the year		At the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Manufacturing	214,979	15.42	214,201	17.60
Leasing and commercial services	203,138	14.57	155,004	12.74
Wholesale and retail	169,237	12.14	155,962	12.82
Real estate	100,249	7.19	90,119	7.41
Construction industry	88,779	6.37	83,378	6.85
Water conservancy, environment and public facilities management	62,046	4.45	65,591	5.39
Transportation, warehousing and post industry	49,754	3.57	49,758	4.09
Electric power, heat, gas and water production and supply industry loans	43,149	3.10	32,206	2.65
Mining industry	32,208	2.31	33,016	2.71
Other corporate industries	90,889	6.52	64,302	5.29
Discounted bills	16,507	1.18	27,459	2.26
Personal loan	323,147	23.18	245,658	20.19
Total	1,394,082	100.00	1,216,654	100.00

During the reporting period, the Group continued to shore up its industry analysis and monitoring, took an active part in supporting the development of real economy, got actively involved in mainstream economic communities and high-quality projects, weighted more resources toward green finance and strategically emerging industries, helped to phase out the backward production capacity and traditional techniques of the industries plagued by sever overcapacity as well as low-end manufacturing companies, and gathered pace in developing personal credit business. As a result of these efforts, its credits were distributed among different industries more reasonably.

(2) Loan extensions by geographical area

(Unit: RMB1 million)

Geographical area	At the end of the year		At the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Northern and Northeastern China	525,878	37.72	457,647	37.62
Eastern China	382,613	27.45	331,551	27.24
Southern and Central China	305,926	21.94	262,995	21.62
Western China	179,665	12.89	164,461	13.52
Total	1,394,082	100.00	1,216,654	100.00

During the reporting period, the Group upheld the development philosophy of "taking root in the Beijing-Tianjin-Hebei region, tapping deep in Eastern and Central China, and delivering services to the entire country". Specifically, made active contributions to a host of state strategies and programs for regional economic and social development, including the coordinated development of the Beijing-Tianjin-Hebei region, the Belt and Road Initiative, the building of Yangtze River Economic Belt, the spearheading development of the eastern region, the rise of the central region, the large-scale development in the western region, and the revitalization of northeast China. By doing so, it encouraged its branches nationwide to seek for development in the light of local conditions. At the same time, the Company kept improving the customer structure, and worked hard to fit well into the mainstream economic communities. Thanks to these efforts, its credits maintained a momentum of balanced growth across different regions nationwide.

(3) Particulars of top 10 borrowers

(Unit: RMB1 million)

	Balance	Percentage (%)
Top 10 borrowers	36,320	2.72

During the reporting period, the Company strictly controlled the loan concentration risk. The total balance of top 10 borrowers amounted to RMB36,320 million, accounting for 2.72% of total loans and 16.96% of net capital at the end of the period, respectively, which were controlled within the regulatory requirements.

(4) Classification of loans by guarantee method and percentages

(Unit: RMB1 million)

	At the end of the year		At the beginning of the year	
	Amount	Percentage (%)	Amount	Percentage (%)
Unsecured loans	268,629	19.27	196,635	16.16
Guaranteed loans	524,552	37.63	462,333	38.00
Collateral loans	600,901	43.10	557,686	45.84
– Mortgage loans	463,463	33.25	433,433	35.63
– Pledge loans	137,438	9.85	124,253	10.21
Total	1,394,082	100.00	1,216,654	100.00

At the end of the reporting period, the Group's loan business featured a basically stable guarantee structure. Of these, the unsecured loans grew by 3.11 percentage points over the end of last year, which was mainly credited to the expansion of credit card overdraft business.

2. Major loans and interest rates

(1) Major loans and interest rates by business category

(Unit: RMB1 million)

Category	Average balance	Interest	Average interest rate (%)
Corporate loans	979,456	50,848	5.19
Retail loans	277,894	11,658	4.20
Total	1,257,350	62,506	4.97

(2) Major loans and interest rates by term

(Unit: RMB1 million)

Category	Average balance	Interest	Average interest rate (%)
General short-term loans	498,641	22,271	4.47
Medium and long-term loans	758,709	40,235	5.30
Total	1,257,350	62,506	4.97

Note: General short-term loans include discounts.

3. Financial assets held under resale agreements

(Unit: RMB1 million)

Item	End of 2017		End of 2016	
	Balance	Percentage (%)	Balance	Percentage (%)
Bonds	39,373	97.94	120,666	98.88
Bills	830	2.06	1,366	1.12
Total	40,203	100.00	122,032	100.00

vi. Analysis of liabilities

1. Due to customers

(Unit: RMB1 million)

Category	Average balance	Interest	Average interest rate (%)
Corporate demand deposits	595,415	4,359	0.73
Corporate time deposits	535,851	12,342	2.30
Savings demand deposits	113,279	300	0.26
Savings time deposits	130,404	3,724	2.86
Total	1,374,949	20,725	1.51

2. Financial assets sold under repurchase agreements

(Unit: RMB1 million)

Item	End of 2017		End of 2016	
	Balance	Percentage (%)	Balance	Percentage (%)
Bonds	69,946	99.92	106,462	99.78
Bills	56	0.08	234	0.22
Total	70,002	100.00	106,696	100.00

3. Due to banks and other financial institutions

(Unit: RMB1 million)

Item	End of 2017		End of 2016	
	Balance	Percentage (%)	Balance	Percentage (%)
Due to domestic banks	60,209	26.03	89,006	39.53
Due to overseas banks	1,001	0.43	579	0.26
Due to other domestic financial institutions	170,146	73.54	135,548	60.21
Total	231,356	100.00	225,133	100.00

vii. Analysis of investments

1. Material equity investments

During the reporting period, the Company made a capital increase of RMB2,460 million to Hua Xia Financial Lease Co., Limited.

(1) Holdings in other listed companies

(Unit: RMB1 million)

Stock code	Stock name	Initial investment cost	Shareholding percentage (%)	Book value at the end of the period	Return during the reporting period	Change in owner's equity during the reporting period	Accounting item	Source of shares
V	Visa Inc.	1	0.0003	1	0.03	–	Available-for-sale financial assets	Membership fees converted to shares

(2) Holdings in unlisted financial corporations and companies to be listed

(Unit: RMB1 million)

Name	Initial investment cost	Number of shares held (1 million shares)	Shareholding percentage (%)	Book value at the end of the period	Return during the reporting period	Change in owner's equity during the reporting period	Accounting item	Source of shares
China UnionPay Co., Ltd.	81	62.50	2.13	81	5.00	–	Available-for-sale financial assets	Investment with self-owned capital
Beijing Daxing Hua Xia Village Bank Co., Ltd.	100	100	80	100	–	–	Long-term equity investments	Investment with self-owned capital
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	35	35	70	35	2.80	–	Long-term equity investments	Investment with self-owned capital
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	35	35	70	35	–	–	Long-term equity investments	Investment with self-owned capital
Hua Xia Financial Lease Co., Limited	4,920	4,920	82	4,920	–	–	Long-term equity investments	Investment with self-owned capital

Note: The cost method was adopted for accounting of the Group's equity investments above. Except actual payments upon investment or announced but unpaid cash dividends/profits in consideration, cash dividends/profits announced by investees for distribution were recognized as return on investment into current profit or loss.

2. Material non-equity investments

Not applicable.

3. Financial assets measured at fair value

During the reporting period, the Company measured held-for-trading bonds and available-for-sale bonds at fair value, which were determined by means of quotation, transaction price or yield curve. The yield curve published by China Government Securities Depository Trust & Clearing Co., Ltd. was used as the RMB-denominated bond yield curve, and the yield curve provided by the Bloomberg system was adopted as the foreign currency-denominated bond yield curve.

Items related to fair value measurement

(Unit: RMB1 million)

Item	At the beginning of the period	Gain/(loss) on changes in fair value during the period	Accumulated changes in fair value through equity	Provision for impairment during the period	At the end of the period
Financial assets at fair value through profit or loss	4,939	-14			3,206
Derivative financial assets	803	2,453			3,256
Available-for-sale financial assets	92,170		-1,152	5	110,230
Total financial assets	97,912	2,439	-1,152	5	116,692
Derivative financial assets	1,093	-603			1,696

Note: There is no necessary articulation in the table.

viii. Material asset and stock right sales

Not applicable.

ix. Analysis of major controlling and equity participation companies

1. Beijing Daxing Hua Xia Village Bank Co., Ltd.

The bank with a registered capital of RMB125 million started operation in December 2010, in which the Company holds an 80% stake. At the end of the reporting period, the bank's total assets and net assets reached RMB1,103,627,300 and RMB122,104,600 respectively. The deposit balance decreased by 20.89% from the beginning of the year to RMB817,229,400; the loan balance rose by 46.16% from the beginning of the year to RMB779,473,600. During the reporting period, the bank generated a net profit of RMB1,265,300.

2. Kunming Chenggong Hua Xia Village Bank Co., Ltd.

The bank with a registered capital of RMB50 million started operation in August 2011, in which the Company holds a 70% stake. At the end of the reporting period, the bank's total assets and net assets reached RMB555,970,700 and RMB67,924,800, respectively. The deposit balance increased by 0.63% from the beginning of the year to RMB452,014,400; the loan balance rose by 3.94% from the beginning of the year to RMB418,311,800. During the reporting period, the bank generated a net profit of RMB8,023,700.

3. Sichuan Jiangyou Hua Xia Village Bank Co., Ltd.

The bank with a registered capital of RMB50 million started operation in December 2011, in which the Company holds a 70% stake. At the end of the reporting period, the bank's total assets and net assets reached RMB1,072,012,600 and RMB100,841,500, respectively. The deposit balance increased by 17.94% from the beginning of the year to RMB955,717,200; the loan balance rose by 26.95% from the beginning of the year to RMB717,150,100. During the reporting period, the bank generated a net profit of RMB19,942,900.

4. Huaxia Financial Leasing Co., Ltd.

The company with a registered capital of RMB6 billion started operation in May 2013, in which the Company holds an 82% stake. At the end of the reporting period, the company's total assets, total liabilities and net assets were RMB60,460 million, RMB52,867 million and RMB7,593 million, respectively. During the reporting period, the company generated a net profit of RMB585 million.

x. Structured entities controlled by the Company

Not applicable.

xi. Business review

1. Corporate banking

During the reporting period, the Company actively adapted to the requirements raised by the transition of the Chinese economy to a stage of high-quality development in the new era as well as the changes in regulatory policies and market conditions, established the clear customer positioning, and embraced the development opportunities. It firmly implemented the strategy of "basing its operations on deposit business", enhanced financing and cash management service capacity, and increased the classified customer development and the reserves of financing business projects. It strengthened product innovation and application, quickened the transformation and development of investment banking, supply chain finance, and green finance, expanded customer base and business scale, improved profitability and achieved remarkable results. In respect of corporate deposit organization, the Company strove to attract low-cost funds and settlement funds and pushed forward the steady growth and structural optimization of corporate deposits. At the end of the reporting period, the balance of corporate demand deposits of the Company increased by RMB69,072 million or 12.36% over the previous year.

Always committed to putting customers in the first place, the Company continued to promote the multi-level classified customer development and maintenance, constantly expanded customer groups, consolidated customer base, and optimized customer structure. At the same time, it continued to push ahead with bank-enterprise cooperation, implemented the list-based marketing among key customers, created strategic partnerships with many large-scaled central enterprises, local SOEs and inter-bank customers, and pooled together financial resources, with a view to offering the comprehensive financial services that were distinctive and influential. While enhancing bank-government cooperation, the Company streamlined the institutional business handling flows, refined the business systems, kept improving business efficiency, and delivered better services to government organs and public institutions. Besides, it continued to develop the underlying customer groups, optimized the customer structure, enhanced the quality of customers, fostered customer clusters through the following three development modes: chain, business line and source, and retained the existing customers and attracted new customers by focusing on fund settlement and flow management. As a result, the Company saw its customer base growing larger and better. At the end of the reporting period, the Company's corporate customers numbered 473,400, an increase of 60,100 or 14.54% over the beginning of the year.

In response to market changes and customer demands, the Company did well in product innovation and application constantly, kept improving product functions, and delivered better user experience to customers. In the year, it developed a host of products including domestic service factoring and annually-reviewed loans granted to large and medium-sized enterprises, optimized many products like bill pool, syndicated loan, urbanization loan, and M&A loan, and kept providing cash management services that integrated settlement services and wealth management through the cash management toolkit. Given the changes in macro policies and market landscape, the Company accelerated the transformation of its supply chain finance by introducing more diversified products, achieved positive progress towards professional development, offered better services to such key industries as construction, auto-making and leasing, and enhanced the ability to serve the real economy. In the meantime, it developed the investment banking business at a faster pace, and expanded the scale of the underwriting business. At the end of the reporting period, the Company underwrote the debt financing instruments targeted at non-financial companies in the amount of RMB100,648 million, up 10% year on year. It was conferred the award of "2017 Excellent Investment Banks in China" by *Securities Times*.

Green finance business of the Company gained more influence among the public. The Company won the "Award for Best Green Finance Practice under the Category of Social Responsibilities" from China Banking Association, the "Annual Best Banks Providing Green Financial Services" under "2017 China Financial Institutions Medal Tally: Golden Dragon Award" from *Financial News*, and the award of "2017 Best Bank Partners of the Energy-saving Service Industry" from China Energy Conservation Association. The Company undertook a credit on-lending program as a part of the Innovative Financing Project for Air Pollution Control in the Beijing-Tianjin-Hebei Region in the charge of the World Bank. The program went on well. According to the program, the Company and the World Bank co-invested over RMB10 billion in supporting the air pollution control project across the Beijing-Tianjin-Hebei region and the surrounding areas with low-cost funds. The program involved energy efficiency improvement, expansion of renewable energy supply, and end-of-pipe treatment of air pollution. As at the end of the reporting period, the on-lending funds from the World Bank and the French Development Agency had provided support for 70 sub-projects of 54 enterprises in the country, accumulatively saving 2.93 million tons of standard coal, reduced 6.34 million tons of carbon dioxide emission, and covered 16 provinces, autonomous regions and municipalities, such as Beijing, Hebei, Shanxi, Inner Mongolia, Jilin, Heilongjiang, Jiangsu, Fujian, Shandong, Henan, Hunan, Guangdong, Chongqing, Shaanxi, Gansu and Guangxi.

At the Company, the international business line was dedicated to providing customers with a full package of trade financing services that were denominated in RMB and foreign currencies, provided at home and abroad and integrated online and offline. At the same time, it strengthened the role of product innovation and business marketing, proactively acted on such state strategies as the Belt and Road Initiative, the coordinated development of the Beijing-Tianjin-Hebei region, and the innovative development of free trade zones, got closely aligned with the philosophy of developing internet finance, and kept delivering better services to the real economy. These efforts to introduce more channels, enhance quality and efficiency, adjust structure, and intensify service quality all achieved sound operational results. During the reporting period, the number of international business customers grew steadily at a rate of nearly 8%; the fee-based business income and the volume of foreign exchange settlement and sale increased fast at a rate of over 20%; the correspondent banks exceeded 1,600 and were distributed in 380 cities of 116 countries and regions across five continents. The Company continued to improve the "Global Winning" service brand by rolling out a host of sub-brands like "Asian USD Remittance Express" and "Export Collection, Settlement and Surplus". It won the following awards from China Banking Association and other units: "Best Bank Partners for Trade Companies", "Best Innovative Banks in Trade Finance-related Products", "Excellent Trade Financing Banks of the Year" and "2017 Trade Financing Banks".

2. Business of micro and small-sized enterprises (MSEs)

During the reporting period, the Company continued to push ahead with the strategy of "developing into a financial service provider for SMEs", responded to the macro policies of the state, supported the development of the real economy, put the focus of inclusive finance on serving MSEs, stuck to the differentiated and featured operations, provided MSEs with comprehensive financial services which covered more targeted customers, and made them more increasingly satisfied with concrete efforts. During the reporting period, the Company generated the balance of loans granted to MSEs worth RMB314,270 million, up 15.79% over the same period of last year, higher by 1.52 percentage points than the average growth rate of various loans across the industry. It extended loans to 34,800 MSEs, up 22.78% over the same period of last year. Among all MSEs applying for loans, 94.06% got their applications approved, higher by 2.81 percentage points than the same period of last year. The Company met the "three no less than" regulatory objectives with respect to MSEs, and lifted its operational and social benefits to a higher level.

During the reporting period, the Company established the MSE financing department in 38 tier-1 branches, and kept improving the MSE service mechanism that covered the Head Office, branches and sub-branches and the MSE service supporting mechanism that featured professional operation, flow-based management, personalized evaluation and three-dimensional marketing. At the same time, the Company assigned a modest number of MSE customer managers to cope with the development of MSE credit business, took an active part in organizing business trainings, and honed its skills to serve MSEs.

During the reporting period, the Company kept refining the risk management mode fit for the characteristics of the MSE customer group, thus developing the related business in a stable, healthy way. Centering on the industry features and business model of MSE customer group as well as capital turnover laws, the Company worked out the directions of business expansion, risk appetite, business flows, and standards for customer access so as to exploit the coordinated synergy of risk management and marketing efforts, and realize the risk and compliance-led business development. At the same time, as to the micro-sized customer groups featuring small credit lines, large numbers and similar risk attributes, the Company put in place the "customized, standard and large-amount" credit granting flows which were designed to create better customer experience.

During the reporting period, the Company was committed to combining top-level design with grassroots innovation, kept optimizing the lineup of featured products for MSEs, upgraded such featured products as House Loan Mortgage and Photovoltaic Loan, and served MSE customers in a steadily efficient way. In the meantime, the Company rolled out the small and micro finance APP for private business owners so that borrowers could apply for loan disbursements, make repayments, inquire about previous transactions, and upload application materials through the APP directly and efficiently.

During the reporting period, the Company highlighted the significance of "Internet Plus" and "financial technologies", and provided MSEs with a full package of one-stop, comprehensive financial services which were professional and distinctive. Relying on the payment financing system, it refined and optimized the functions of mobile terminals such as automatic disbursement of online loans, online supply chain business, and online operation of featured products. The Company accumulatively granted 45,300 loans to MSEs online in 2017, which totaled RMB14,964 million, with an average amount of RMB330,600 per loan, and received 107,000 repayments in a total amount of RMB13,448 million.

3. Personal banking

During the reporting period, the Company seized the strategic opportunities brought by the transition from old drivers of growth to new ones, the continuously growing consumption demands and the transformative upgrade of consumption structure. While underpinning the principal position of corporate business, it spared no efforts to bolster its weakness in retail business, in a bid to turn it into an important starting point of the bank-wide business transformation. In the meantime, the Company worked hard to establish a grand retail business segment that featured unified, efficient, coordinated and strong operations, expanded the retail customer base, and helped the business segment to grow larger and more profitable. The Company improved the retail financial service system, and actively promoted the above system towards better marketing design, organization and coordinated management; highlighted the priorities of retail business development, and helped the three key business lines (consumer credit, wealth management and acquiring & payment) to grow stronger; and put retail business online, and transform it toward digital operations. At the end of the reporting period, the balance of personal deposits of the Company reached RMB254,513 million, representing an increase of RMB15,637 million or 6.55% over the previous year, and signaling a good start of the new Development Program.

Strengthening hierarchical service delivery and fostering key customer groups: At the Company, customers at different levels grew remarkably. Specifically, personal underlying customers, VIP customers, premier wealth management customers, and high-net-worth customers increased by 15.68%, 31.48%, 45.89% and 46.86%, respectively. In the three key business segments set forth in the Development Program, the consumption credit customer group, personal wealth management customer group, and the merchant acquiring customer groups grew by 13.51%, 19.95% and 82.05%, respectively, the ever highest growth rate since the establishment of the Company. Hua Xia ETC services extended reaches to 21 branches nationwide and had its registered customers increase by 24.64%. At the same time, the Company continued to develop its marketing network consisting of community sub-branches. The community outlets saw their inclusive finance customers increasing by 67.11%.

Helping consumer credit to grow larger: The Company was dedicated to building a consumer loan service system that was intended to meet customers' dwelling, working and living needs. With respect to dwelling services, it actively responded to the state's reform measures to provide the multi-layered house supplies and the differentiated house loan policies in the light of actual conditions at different places, so as to cater to residents' rigid house demands. When it came to working services, the Company actively granted loans to private business owners, in an effort to finance MSEs' operations and meet individuals' financial needs arising from innovation and business startup. With regard to living services, it spared no effort to develop personal consumer credit, by extending more personal auto loans and personal comprehensive consumption loans and rolling out the online loan services titled "Hua Xia E Loan". The new personal consumption loans amounted to RMB4,921 million, up 25.25%, throughout the year. Besides, the Company also managed the liquidity of assets relating to personal loans and streamlined the structure of such assets at a faster pace, and issued the first RMB2,201 million securities backed with assets relating to "Long Dwelling" personal home mortgage loans. At the end of the reporting period, the balance of personal consumption loans of the Company increased by RMB31,163 million or 21.81% over the previous year to RMB174,084 million.

Enabling wealth management business to grow stronger: The Company actively developed personal wealth management products, rolled out series of products named "Cellphone Wealth Management after Working Hours" and "Hua Xia E Community Wealth Management", and diversified the product lineup in the Long Winning Wealth Management series. At the same time, it cemented its all-rounded partnerships with funds, insurances, trusts and other agencies, sought to cooperate with more business agents, and introduced increasing types of products, in the hopes of meeting customers' demands for wealth management. To cater to high-net-worth customers' needs for wealth inheritance, the Company rolled out the family rust business. Additionally, it reinforced sale compliance, improved the "dual entry" system, and promoted premier wealth management business toward stable, sustained development.

Developing payment and acquiring business better: The Company rolled out a payment product named "Hua Xia Cashier" that integrated payment, cashiering, and purchase-sales-inventory management together. The product could provide personal customers with secure, convenient, intelligent, and diverse payment services and functions, and offer MSEs with acquiring solutions that were applicable both online and offline. At the end of the reporting period, the distributed acquiring machines exceeded 300,000, Hua Xia debit cards issued accumulated to 35,501,800, and financial IC debit cards increased by 30.27% year on year.

Transforming retail business towards digital operations at a faster pace: The Company gathered pace in building smart outlets or upgrading existing outlets to smart operations, took the lead in setting up the first smart outlet at Xiongan New Area, and increased the application of such intelligent equipment as smart counters and bank card issuing robots and big data-driven analysis findings to lobby and counter services, all of which aimed to enhance customer experience. At the same time, it established smart communities where customers, merchants and banks could interact with each other and seek for a win-win outcome, created an ecosystem of car owners, and got these connected to many third-party platforms including malls, supermarkets, medical institutions, traveling agencies and automakers, as a move to acquire and activate a large number of customers online. Besides, the Company also put in place a standard lobby service system with customers at its core and a precise marketing flow featuring inter-post collaboration, refined the panoramic view of customers, and did better in data digging and analysis.

Intensifying efforts to develop credit card business: The Company gathered pace in transforming approaches to the marketing and management of credit card business, by making coordinated efforts to seek for faster development and engage in meticulous management, and introducing more marketing channels. At the same time, it strengthened product innovation, further improved electronic payment, and enriched value-added services, so as to expand the scale of credit card business and propel it towards sound and fast development. Specifically, the Company launched an array of new credit cards including Hua Xia Elite Platinum Credit Card (metallic version), JD.com Co-branded Card, iQIYI Co-branded Card, Bazzar Co-branded Card, VISA Zhicheng Credit Card, Credit Card with Only MasterCard Logo, Yangzhangou Co-branded Card, and Winter Olympics Co-branded Card. In the meantime, it also rolled out many new businesses such as One-day Loan and Short-term Loan Pal; optimized online self-service channels, and supported the differentiated rates; teamed up with many internet companies such as Ctrip and Tuniu to introduce more online customer acquisition channels; released the credit card APP, WeChat applets, and Alipay Fortune Account; and spared no efforts to develop mobile payment business, launched wearable payment and QR code-scanning payment products and connected to the unified clearing platform for online payment.

Doing more to promote the brand of retail business: The Company achieved new progress in shinning its community sub-branch service brand. General manager of Jiangnan Chuncheng Community Sub-branch, affiliated to Wuhan Branch, was rated the "Best Bank Employee" in the selection organized by CBRC in 2017. The credit card business line of the Company won the following awards in the year: "Exemplary Partner Award of the Year" from MasterCard International, "Excellent Partner Award of the Year" from China UnionPay, "Award of Excellence for UnionPay Card Marketing Cooperation in 2017", and "Award of Excellence for UnionPay Card Innovative Cooperation in 2017". And the Hua Xia Elite Platinum Credit Card (metallic version) was conferred the "Ian Award" by the international bank card community. Besides, the Hua Xia E Loan product of the Company was named the "Award for Production Innovation of the Year" by the 21st Century Economic Forum and the "Integrated Marketing Award of the Year under Exemplary Retail Business" by *The Economic Observer*. The financial literacy awareness activity was rated the exemplary unit of bringing financial knowledge to ordinary households by the General Office of CBRC in 2017.

4. Financial market business

During the reporting period, the Company, through taking compliance operation and innovative development as the primary mission and strengthening product and business innovation, actively promoted strategic transformation of businesses, vigorously developed financial markets business, increased added value of traditional business, enhanced comprehensive capability of serving customers, and further optimized the structure of business income.

Through better researching and judging the macroeconomic trend, bond market and foreign exchange market, the Company kept a tight reign on risks, actively responded to market changes, and enhanced its investment management standards. While maintaining the overall stability of bonds, it appropriately adjusted bond duration and position structure, thus improving the return on bond investment continuously and steadily. In the meantime, it actively fulfilled the responsibilities due to dealers in the inter-bank foreign exchange market, and solidly conducted the proprietary and agent fund transactions, so as to increase profitability constantly. The Company further participated in the market and expanded the trading volume by currency trading, bond trading, foreign exchange trading and commodity trading. As a result, it became more influential in the market. During the reporting period, the Company completed 29,056 inter-bank lending transactions and pledged repurchase transactions, amounting to RMB37,247,727 million, up 7.64% year on year. In 2017, the accumulative amount of RMB and foreign-currency treasury transactions (group-level) reached RMB44,125,625 million, a year-on-year increase of 7.67%.

Upholding the principle of operating in the interest of customers and enhancing compliance management standards, the wealth management business line of the Company stringently acted on a variety of regulatory provisions, pushed ahead with regulatory crackdowns with concrete efforts, and strengthened internal control and management, so as to greatly underpin the lawful, sustained development of the asset management business. While working harder to research asset management and investment, the Company created the "Hua Xia Long Winning Asset Management" WeChat official account, and rolled out a host of exclusive wealth management products in series of "Guaranteed Proceeds", "Easy Proceeds", green finance and "Corporate New Proceeds". At the same time, it actively optimized the customer structure, vigorously developed and sold personal wealth management products, and lifted the percentage of personal customers. During the reporting period, the cumulative sales volume of wealth management products of the Company stood at RMB2,603,764 million, an increase of 9.64% year on year. At the end of the reporting period, the balance of wealth management products amounted to RMB766,954 million, an increase of 2.87% year on year.

In 2017, the Company won many titles of honors listed as below: "Outstanding Dealer in China's Bond Market" and 3rd place on the "List of Dealers by Bond Delivery Volume" (sponsored by China Central Depository & Clearing Co., Ltd.); "Core Dealers in the Inter-bank RMB Market" and 3rd place on the "Top 300 Dealers in the Inter-bank RMB Market" (sponsored by the National Interbank Funding Center); "Top100 in the Inter-bank RMB-Foreign Exchange Market", "Core Dealers", and "Excellent Monetary Market Dealers" (sponsored by China Foreign Exchange Trade System); "Best Banking Wealth Management Brands" (sponsored by the *21st Century Business Herald* in the selection of Golden Shell Award); and "Exemplary Unit in National Banking Wealth Management Information Registration" (sponsored by the Banking Wealth Management Registration & Depository Center).

5. E-banking

During the reporting period, the Company implemented the strategy of making the bank strong through financial technologies, and pursued the vision of "smart finance, digital Hua Xia" to develop an internet-based mindset, innovate in modes of financial services, and cement cooperation with platforms. While continuously optimizing the "smart e-banking" service system, it reshaped the digital business flows, transitioned to internet-based innovative operations, and developed itself into a value center of online finance.

At the same time, the Company took an active part in reshaping related framework and rolling out online financial services innovatively. Centering on the retail online finance, corporate online finance, and internet banking, the Company overhauled its mobile banking by streamlining core flows, improving the grand wealth management module, and redefining the framework of living consumption, launched the new direct banking that focused on the management of multiple types of accounts and attracted customers through accessible scenarios and smart services, developed the cloud platform intended for cross-bank fund management and the after-working-hours wealth management products exclusive to mobile banking customers.

It implemented the "platform undertaking" strategy to seek for high-quality development through platform cooperation. Relying on the "account + payment + product" comprehensive financial service platform which was connected to extensive external platforms, the Company entered all-round partnerships with Tencent Group, JD Finance, PICC Financial Services Company Limited, and other companies, thus achieving overarching progress in terms of product innovation, marketing innovation, data application, risk control and other aspects.

The Company dug deep the value of data, and carried out precise marketing activities on a regular basis. In the meantime, it analyzed data on specific themes like value contribution of e-banking customers, launched themed marketing campaigns about off-working-hours wealth management products, and made targeted marketing efforts for customers diverted from other companies. Besides, the Company also devised such public marketing activities as referral marketing, launched targeted marketing campaigns against high-frequency customers of JD, Suning and other platforms, and proactively mounted the Tencent game scenarios to stimulate the dual-way customer attraction.

At the same time, the Company never overstepped the bottom line of risk management, and worked hard to create the new-type risk management mode. By introducing such techniques as biological recognition, artificial intelligence and big data-backed risk control, it shifted the focus of risk management from traditional manpower to new technologies, and moved risk management forward from result control to early recognition, pre-warning, and blocking.

During the reporting period, the scale of the Company's e-banking customers expanded steadily, and customer quality improved remarkably. The number of mobile banking, direct banking and corporate online banking customers grew by 43.46%, 92.05%, and 31.36% from the beginning of the year, respectively. The e-banking deals increased by 78.65% and the fee-based income went up by 104.84% year on year. By virtue of its excellent performance, the Company was named the "Top 10 Public Marketing Vanguards—Golden Chestnuts of Chinese Financial Brands" by China Financial Certification Authority, the "2017 Smart Banks with Excellent Competitiveness" by the Chinese Academy of Social Sciences, and the versatile team award in the "Looking for the Voice" skill competition for customer service centers. Throughout the year, the Company became more reputed and influential in the industry and the public with each passing day.

III. DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT

i. Industry competitive pattern and development trend

The year of 2018 marks China commences implementing the core message of the 19th CPC National Congress and that the 13th Five-year Plan carries forward in a new paragraph. The Chinese economy is in a good position to maintain its growth on a medium-to-high level. It is expected that the Chinese commercial banks will see their operations further improved, profits growing faster, and assets coming in better quality. With the mounting pressure from risk control, the industry still faces a quite severe prospect. As the regulation continues to tighten, the banking industry will push ahead with de-leveraging. Against such a backdrop, the banking financial institutions will take initiative to adjust their business development mode, by continuing to reduce inter-bank investments and transform asset management business at a faster pace. The blend of increasingly stringent financial regulation, deepening market-based operations of financial markets and flourishing financial technologies makes it imperative for the banking industry to adopt an operational mode that pursues high-quality development. Asset-efficient operation has become a consensus across the entire industry; retail banking and financial services for SMEs will win more input; grand asset management and investment banking are high on the agenda of banks; and financial technologies will continue to greatly boost banks to seek for business innovation and lift their operational and management standards. In the midst of operational transformation, the competition among commercial banks will become severe with each passing day, a new industry landscape is taking shape, and the ability of differentiated and featured operations will be the key for banks to survive the upcoming throat-cutting competition.

ii. The Company's development strategies

In 2018, the Company will follow the guidance of the *2017-2020 Development Program of Hua Xia Bank* (the Development Program), act on the new philosophy of "innovative, coordinated, green, open and shared development", take serving the real economy and creating value for customers and shareholders as the central tasks, and uphold the strategic principles of "putting deposits at the heart of the bank and making it stronger with financial technologies and competent employees". While embarking on a path towards featured, digital, comprehensive and asset-efficient development, it focused its efforts on the following six strategic aspects: making innovations with financial technologies, strengthening the development of retail business, improving the layout of comprehensive operations, building itself into the lead bank that served the coordinated development of the Beijing-Tianjin-Hebei region financially, doing better to fulfill its role as a financial service provider for SMEs, and creating the featured business lines represented by green finance. As a result, it will sharpen its core competitiveness, and realize higher-quality development.

iii. Operating plan

In 2018, the Company will act on the core messages conveyed on the 19th CPC National Congress and the Central Economic Work Conference on all fronts, uphold the overarching principle of seeking for progress while maintaining stability and the new development philosophy, and center on the three major tasks, namely serving the real economy, forestalling financial risks and pushing ahead with financial reform. While making sure its operations in strict compliance with related laws and regulations, it will exercise stricter management, gather pace in reform, and implement the new Development Program on all fronts, in a bid to accomplish all operational tasks and objectives set forth by the Board of Directors.

1. Accelerating the institutional reform and realizing quality development.

Promoting the organizational reform and management transformation with financial technologies: The Company will integrate such functions as design of overall framework, product innovation, demand management, data service and R&D of new technologies, allowing innovative technologies to play their leading role better. At the same time, it will seek for ways to establish a financial technology company which is intended to enhance the capability of independent innovation, do a better job in data analysis and application, and transform itself into a digital bank.

Promoting the organizational reform and management transformation with marketing efforts: The Company will exercise more stringent management over the following three business segments: corporate finance, retail finance and financial markets, with a view to producing stronger synergy and operational efficiency; manage different business lines in a vertical, professional way, in a bid to produce a marketing synergy; move faster to improve the business system, introduce more marketing channels, intensify product innovation and application, and cater to needs raised by market and business development.

Promoting the reform and management transformation with operational scheme: The Company will focus its efforts on reshaping the organizational structure, setting up a unified platform, reengineering business flows, and promoting intensive operations, while introducing its reform of operational scheme. In the meantime, it will launch a host of programs with respect to counter integration, centralized and paperless operations, and remote authorization, with a view to enhancing the manual operation replacement ratio and lowering down the operational cost.

2. Firmly returning to the ultimate mission of delivering services and increasing service efficiency.

Working hard to developing into the lead bank that serves the coordinated development of the Beijing-Tianjin-Hebei region financially: To undertake such major tasks as building Beijing into four centers, relieving it of functions non-essential to its role as the capital of China, making preparations for the upcoming Winter Olympics, and constructing Xiongan New Area, the Company will deliver better financial services and get fully integrated into the mainstream economic communities.

Continuing to develop the green finance business: The Company will give more support to green economy, low-carbon economy and circular economy, put in place a long-term mechanism for developing green credit and green investment, devise featured products and business modes with respect to green finance innovatively, and increase the percentage of green assets in the bank-wide total.

Implementing the strategy of pinpointing customer positioning: The Company will set up cooperation platforms, reinforce top-level design, introduce better auxiliary policies, take targeted approaches to featured marketing and differentiated marketing, and further optimize customer structure. At the same time, it will roll out more variations of investment banking, trade financing and other businesses, and enhance its ability to offer comprehensive financial services including corporate financing and financial counseling.

Developing credit card business at a faster pace: While consolidating the dominant role of corporate business, the Company will start its business transformation from retail business to help its three major business lines, i.e. consumer credit, wealth management and acquiring & payment to grower stronger. In the meantime, it will gather pace in product R&D, launch more value-added services relating to ETC cards and new payment products/functions, and promote the optimization of smart counters and the development of smart outlets, with a view to expanding its customer base.

Pushing forward the strategy of becoming a financial service provider for SMEs: The Company will act on the state policy on developing inclusive finance, move faster to cooperate with internet companies, financial technology service companies and others engaged in different sectors, explore for how to transform the MSE business, continue to forge the business into a unique brand, and make sure the regulatory objectives can be realized.

3. Embracing comprehensive operations and increasing profitability at a faster pace.

Fully integrating a variety of financial resources: The Company will further strengthen its cooperation with such financial institutions as trusts, securities, insurances, funds, futures, and internet companies both vertically and horizontally, as a move to enhance its ability in integrating financial resources. Besides, it will exploit the complementary advantages between leasing and banking businesses for a win-win outcome by moving jointly in terms of customer services, business expansion and risk control. In the meantime, it will lose no time to incorporate a consumer financial company and set up a branch in Hong Kong.

Generating more income from fee-based business through multiple channels: The Company will get its investment banking business integrated fully and sharpen its ability in delivering professional services; help the credit card business to sustain the momentum of sound development and move more quickly to seize a larger market share; promote the asset management business towards solid development, and render professional wealth management services from the perspective of customer assets allocation; and strengthen the business coordination among corporate banking, asset management, investment banking and private banking, and tap deep in the potential drivers for fee-based income growth.

Focusing on optimizing the structure of assets and liabilities and the cost-to-income ratio: Driven by the sensible resource allocation and centering on the comparatively reasonable interest margin level, the Company will push ahead with the full-aperture asset and liability management; break down structural management under the item of assets and liabilities so that it can permeate different industries and products and reach the front end of marketing efforts; put budgetary affairs under meticulous management, highlight the constraint role of budgets, intensify input-output evaluation, and ensure the cost-to-income ratio can be controlled within a reasonable range.

4. Erecting deep-set defence lines for risk management and enhancing risk management standards.

Making vigorous efforts to forestall various risks: The Company will put credit risk under rigid control, intensify efforts to recover and dispose of overdue loans, and employ information technology, big data and other new measures to control risk and guarantee asset security. At the same time, it will keep a close eye on liquidity risk, adjust and optimize term structure, and make sure all liquidity indicators can meet regulatory requirements. Besides, it will also keep closely current on risks potentially arising from key areas, sort through and forestall debt risks incurred by local governments, risks caused by interest rate hikes, risks relating to environmental pollution control, and risks attributed to enterprise groups that face an excessively high liability ratio, and devise the risk control contingency plans.

Laying a solid foundation for up-to-standard and secure operations: The Company will be committed to operating in strict compliance with applicable laws and regulations, strengthen internal control and compliance management. At the same time, it will work harder to screen out material risks about fraud, money laundering and other aspects, and hold the entities and individuals concerned accountable. Besides, it will intensify operational management, safeguard the security of information system substantially, put reputational risk under intensified management, and do a good job in guiding public opinions, in a bid to guarantee the secure, stable and orderly operations.

iv. Possible risks

Nowadays, the world economy continues its recovery. But many complicated factors and uncertainties in trade protectionism and geopolitics are likely to hold back the recovery process. The Chinese economy has shifted its primary focus from high-speed growth to high-quality growth. As a result, the entire economy reveals the improved stability, quality and structure, and projects a prospect better than expected. However, it is still confronted with acute structural problems. In this context, risk prevention has become the utmost important task facing the Chinese finance sector in the period ahead. As the external business environment becomes more uncertain, the Chinese commercial banks need to rise to the following major challenges:

First, credit risk management still remains under mounting pressure. As the supply-side structure reform goes on, it is more difficult for banks to deal with debts of local governments. While the drive to phase out the industries plagued with overcapacity and the zombie enterprises comes to the toughest threshold, credit risk is likely to be exposed constantly, which may deteriorate the asset quality of commercial banks.

Second, liquidity risk cannot be ignored. Against the background of forestalling financial risks, new regulations on asset management and norms on inter-bank business may exert an impact on on-balance-sheet liquidity. At the same time, the central bank has adopted the “peak-cutting and valley-filling” policy to meet the banking system’s liquidity demand and maintain the moderate liquidity. But the reasonable and extraordinary factors will magnify liquidity fluctuations, exposing the entire banking industry to greater liquidity risk.

Third, market risk mounts remarkably. As the economic and financial policies become more tightened and stringent, the monetary policy continues to remain prudential and neutral, as a result of which the broad money growth rate slows down, the financial de-leveraging efforts get intensified, and exchange rates are subject to more severely bi-directional fluctuations. Under such circumstances, commercial banks will be constantly exposed to the narrowing interest spreads and other pressures raising from market risk.

IV. BANKING BUSINESS DATA

i. Main accounting data for the three years prior to the end of the reporting period

(Unit: RMB1 million)

Item	End of 2017	End of 2016	End of 2015
Total assets	2,508,927	2,356,235	2,020,604
Total liabilities	2,339,429	2,203,262	1,902,216
Owner's equity attributable to equity holders of the listed company	168,055	152,184	117,678
Total deposits	1,433,907	1,368,300	1,351,663
Incl.: Corporate demand deposits	625,894	560,322	489,750
Corporate time deposits	393,647	404,577	414,827
Savings demand deposits	114,978	114,459	110,917
Savings time deposits	132,356	125,074	130,830
Other deposits	167,032	163,868	205,339
Total loans	1,394,082	1,216,654	1,069,172
Incl.: Pass loans	1,369,485	1,196,306	1,052,875
NPLs	24,597	20,348	16,297
Placements from banks and other financial institutions	65,045	73,130	64,141
Allowance for impairment losses on loans	38,497	32,299	27,235

ii. Capital composition, leverage ratio and changes thereof

1. Capital composition and its changes

(Unit: RMB1 million)

Item	31 December 2017		31 December 2016		31 December 2015	
	Consolidated	Unconsolidated	Consolidated	Unconsolidated	Consolidated	Unconsolidated
1. Total net capital	223,035	214,212	178,991	173,565	144,336	139,832
1.1 Core tier 1 capital	148,850	146,723	132,857	131,351	118,250	117,176
1.2 Core tier 1 capital deductions	2	5,090	1	2,630	2	2,630
1.3 Net core tier 1 capital	148,848	141,633	132,856	128,721	118,248	114,546
1.4 Other tier 1 capital	20,081	19,978	20,044	19,978	39	–
1.5 Other tier 1 capital deductions	–	–	–	–	–	–
1.6 Net tier 1 capital	168,929	161,611	152,900	148,699	118,287	114,546
1.7 Tier 2 capital	54,106	52,601	26,091	24,866	26,049	25,286
1.8 Tier 2 capital deductions	–	–	–	–	–	–
2. Credit risk weighted assets	1,676,454	1,621,645	1,452,825	1,408,869	1,225,885	1,191,486
3. Market risk weighted assets	9,944	9,944	12,440	12,440	5,364	5,364
4. Operational risk weighted assets	116,428	114,138	110,486	108,572	99,142	97,935
5. Total risk weighted assets	1,802,826	1,745,727	1,575,751	1,529,881	1,330,391	1,294,785
6. Core tier 1 CAR (%)	8.26	8.11	8.43	8.41	8.89	8.85
7. Tier 1 CAR (%)	9.37	9.26	9.70	9.72	8.89	8.85
8. CAR (%)	12.37	12.27	11.36	11.34	10.85	10.80

Notes:

1. Calculated according to the *Regulation Governing Capital of Commercial Banks (Provisional)* (CBRC No. 1 Decree in 2012).
2. Net core tier 1 capital = Core tier 1 capital – core tier 1 capital deductions.
3. Net tier 1 capital = Net core tier 1 capital + other tier 1 capital – other tier 1 capital deductions.
4. Total net capital = Net tier 1 capital + tier 2 capital – tier 2 capital deductions.

2. Leverage ratio and its changes at the end of the reporting period

(Unit: RMB1 million)

Item	31 December 2017	30 September 2017	30 June 2017	31 March 2017
Net tier-1 capital	161,611	159,153	154,931	151,741
Adjusted on and off-balance sheet asset balance	2,761,099	2,700,144	2,692,738	2,682,319
Leverage ratio (%)	5.85	5.89	5.75	5.66

Note: The above are unconsolidated data calculated according to the *Regulation Governing Leverage Ratio of Commercial Banks (Revised)* (CBRC No. 1 Decree in 2015).

3. According to the CBRC *Regulatory Requirements on the Disclosure of Capital Composition Information by Commercial Banks* (Y.J.F. [2013] No. 33) and the *Regulation Governing Leverage Ratio of Commercial Banks (Revised)* (CBRC No. 1 Decree in 2015), please refer to the special column of investor relations at www.hxb.com.cn, the Company's official website, for the details on capital composition, major characteristics of capital instruments and leverage ratio of the Group.

iii. Liquidity coverage ratio

(Unit: RMB1 million)

Item	31 December 2017
Stock of high-quality liquid assets	250,494
Net cash outflows over a 30-day time period	268,108
Liquidity coverage ratio (%)	93.43

Note: The above are consolidated data calculated according to the *Notice of CBRC on 2017 Offsite Regulatory Statements Preparation and Reporting* (Y.J.F. [2016] No. 55) and the *Liquidity Risk Management Measures of Commercial Banks (Revised)* (CBRC No. 9 Decree in 2015).

iv. Main financial indicators for the three years prior to the end of the reporting period

Major indicator (%)		Standard value	2017	2016	2015
Return on assets			0.82	0.90	0.98
Return on capital			12.36	14.56	17.19
NPL ratio			1.76	1.67	1.52
Allowance-to-NPL ratio			156.51	158.73	167.12
Allowance-to-loan ratio			2.76	2.65	2.55
Cost-to-income ratio			32.96	34.50	34.76
Loan-to-deposit ratio	RMB		86.30	81.99	75.26
	RMB equivalent		74.89	65.18	76.53
	RMB and foreign currency		86.04	81.65	75.29
Liquidity ratio	RMB	≥25%	45.08	31.45	39.14
	RMB equivalent	≥25%	60.66	80.92	83.27
	RMB and foreign currency	≥25%	45.12	31.59	40.14
Loan concentration ratio of the largest single borrower		≤10%	2.92	3.47	4.46
Loan concentration ratio of the ten largest borrowers		≤50%	16.96	19.51	18.32

Notes:

1. Percentage of loans to single largest borrower = Total loans to the largest borrower/total capital, net × 100%

Percentage of loans to top 10 borrowers = Total loans to top 10 borrowers/total capital, net × 100%

2. Loan-to-deposit ratio, liquidity ratio, percentage of loans to single largest borrower and percentage of loans to top 10 borrowers were calculated according to the regulatory approach.

Migration ratios

Item (%)	2017	2016	2015
Pass loan migration ratio	5.82	4.75	5.65
Special-mention loan migration ratio	22.45	20.98	34.15
Substandard loan migration ratio	40.83	65.78	94.86
Doubtful loan migration ratio	21.05	13.53	31.13

Note: Migration ratios were calculated according to relevant rules of CBRC. Pass loan migration ratio = Downward migrating amount of pass loans at the beginning of the period/(balance of pass loans at the beginning of the period – decreased amount of pass loans during the period) × 100%; special-mention loan migration ratio = Downward migrating amount of special-mention loans at the beginning of the period/(balance of special-mention loans at the beginning of the period – decreased amount of special-mention loans during the period) × 100%; sub-standard loan migration ratio = Downward migrating amount of sub-standard loans at the beginning of the period/(balance of sub-standard loans at the beginning of the period – decreased amount of sub-standard loans during the period) × 100%; and doubtful loan migration ratio = Downward migrating amount of doubtful loans at the beginning of the period/(balance of doubtful loans at the beginning of the period – decreased amount of doubtful loans during the period) × 100%.

v. Interest-generating assets, interest-bearing liabilities and average interest rates

(Unit: RMB1 million)

Category	Average balance	Interest	Average interest rate (%)
Interest-generating assets:			
Loans and advances	1,257,350	62,506	4.97
Balances with central banks	224,058	3,383	1.51
Peer assets	160,605	5,122	3.19
Bond investment	707,196	29,221	4.13
Total interest-generating assets	2,349,209	100,232	4.27
Interest-bearing liabilities:			
Deposits taken	1,374,949	20,725	1.51
Due to central banks	108,181	3,347	3.09
Debt obligations payable	345,574	13,960	4.04
Peer liabilities and others	384,015	14,882	3.88
Total interest-bearing liabilities	2,212,719	52,914	2.39

vi. Hierarchical management and number and regional distribution of institutions

1. Overview of hierarchical management

The Company focuses on economically central cities while radiating over the whole country. It conducts the institutional planning and setup, routine operation and internal management under the three-level organizational management system which consists of the Head Office, branches and sub-branches.

As at the end of the reporting period, the Company set up 40 tier-1 branches, 60 tier-2 branches, nine non-local branches and 968 outlets (including 211 community and micro and small-sized sub-branches) in 103 Chinese cities at prefecture level and above. During the reporting period, seven tier-2 branches were set up, which were distributed in Jingmen, Zhangjiakou, Linfen, Xixian New Area, Lianyungang, Zhaoqing, and Jilin; and a total of 82 outlets were created. Besides, two tier-1 branches in Xi'ning and Lanzhou got prepared and would be open for business soon; and the application for promoting Hong Kong Representative Office to Hong Kong Branch was approved by CBRC.

2. Branches

Institution name	Business address	Number of branches	Headcount	Asset size (RMB1 million)
Head Office	22 Jianguomennei Street, Dongcheng District, Beijing		5,946	1,565,882
Beijing Branch	11 Financial Street, Xicheng District, Beijing	76	2,299	357,033
Nanjing Branch	333 and 329-2 (Jin'ao International Center) Jiangdong Middle Road, Jianye District, Nanjing	58	1,846	174,594
Hangzhou Branch	No.2 Building, Oceanwide International Center, 2 Xiangzhang Street, Jianggan District, Hangzhou	53	2,321	128,565
Shanghai Branch	256 Pudong South Road, Shanghai	30	1,333	89,278
Ji'nan Branch	138 Weier Road, Ji'nan	50	1,902	94,542
Kunming Branch	98 Weiyuan Road, Kunming	28	1,075	67,451
Shenzhen Branch	Nanguangjiejia Mansion, 3037 Shennan Middle Road, Futian District, Shenzhen	37	1,452	166,058
Shenyang Branch	51 Qingnian Street, Shenhe District, Shenyang	29	1,123	35,698
Guangzhou Branch	Nanyue Mansion, 13 Huaxia Road, Tianhe District, Guangzhou	47	1,844	151,506
Wuhan Branch	Huayin Mansion, 786 Minzhu Road, Wuchang District, Wuhan	60	1,853	92,090
Chongqing Branch	27 Jiangbeichengxi Street, Jiangbei District, Chongqing	31	801	88,096
Chengdu Branch	No. 2 Building, Jinjiang Zhichun, 229 Yong'an Road, Jinjiang District, Chengdu City	34	1,193	68,300
Xi'an Branch	111 Chang'an North Road, Xi'an	21	900	46,092
Urumqi Branch	15 Dongfeng Road, Urumqi	12	392	20,688
Dalian Branch	25 Tongxing Street, Zhongshan District, Dalian	24	747	36,145
Qingdao Branch	5 Donghai West Road, Shinan District, Qingdao	36	944	55,880
Taiyuan Branch	113 Yingze Street, Taiyuan	30	1,142	55,805
Wenzhou Branch	Southeast of No.17-05 Plot, Riverside CBD, Wenzhou	19	714	20,242
Fuzhou Branch	Huaxia Mansion, 1 Gutian Zhilu, Gulou District, Fuzhou	20	620	20,385
Hohhot Branch	57 Airport Expressway, Hohhot	17	936	27,395
Tianjin Branch	Tower E, Huanbohai Development Center, Zeng 9 Binshui Road, Hexi District, Tianjin	25	794	28,259
Shijiazhuang Branch	48 Zhongshan West Road, Shijiazhuang	57	1,979	73,642

Institution name	Business address	Number of branches	Headcount	Asset size (RMB1 million)
Ningbo Branch	366 Heyuan Road, Jiangdong District, Ningbo	12	468	21,555
Shaoxing Branch	354 Zhongxing South Road, Shaoxing	9	447	16,885
Nanning Branch	Tower B, Huarun Mansion, 136-2 Minzu Avenue, Nanning	14	607	30,282
Changzhou Branch	No.9 Building, Fuxi Garden, Xinbei District, Changzhou	16	465	25,730
Suzhou Branch	188 Xinghai Street, Suzhou Industrial Park, Suzhou	20	745	54,383
Wuxi Branch	Changxing International Financial Plaza, Financial Street I, Taihu New Town, Wuxi	24	640	54,841
Changsha Branch	Huameiou International Mansion, 389 Wuyi Road, Changcha	9	486	27,890
Hefei Branch	Building C, Wealth Plaza, 278 Suixi Road, Hefei	13	675	25,233
Xiamen Branch	Tower B, Yinling Center, 16 Lingshiguan Road, Siming District, Xiamen	6	381	15,486
Changchun Branch	4888 Renmin Street, Nanguan District, Changchun	15	685	18,734
Zhengzhou Branch	29 Business Outer Ring Road, Zhengdong New District, Zhengzhou	10	805	39,980
Nanchang Branch	10 Binjiang Shoufu, Zhongshan West Road, Xihu District, Nanchang	15	517	22,594
Shanghai FTZ Branch	2 Taizhong South Road, China (Shanghai) Pilot Free Trade Zone	1	39	8,106
Tianjin FTZ Branch	Railway Construction Building, 32 Central Ring West Road, Tianjin Free Trade Zone (Airport Economic Zone)	1	28	8,745
Yinchuan Branch	168 Xinchang East Road, Jinfeng District, Yinchuan	6	259	7,988
Haikou Branch	61 Guoxing Avenue, Meilan District, Haikou	1	141	2,873
Harbin Branch	Tower A, Headquarters of Huizhi Finance Enterprise, Intersection of Qunli No. 5 Avenue and Lijiang Road, Daoli District, Harbin	1	560	5,167
Guiyang Branch	55 Changling North Road, Guansanhu District, Guiyang	1	249	19,208
Regional summarization adjustment				-1,413,905
Total		968	42,353	2,455,401

Note: Headcount of the Head Office includes the staff of Credit Card Center.

3. Representative Office outside the Mainland

Institution name	Office address	Number of branches	Headcount
Hong Kong Representative Office	F/58, Two International Finance Center, 8 Finance St., Central Hong Kong	1	5

vii. Credit asset quality during the reporting period

1. Quality of credit assets

(Unit: RMB1 million)

Five-tier classification	Amount	Percentage (%)	Increase/ decrease compared with the end of previous year (%)
Pass loans	1,305,354	93.64	13.99
Special-mention loans	64,131	4.60	25.37
Sub-standard loans	10,165	0.73	30.98
Doubtful loans	8,790	0.63	-4.61
Loss loans	5,642	0.40	67.32
Total	1,394,082	100.00	14.58

At the end of the reporting period, the Group's NPL balance was RMB24,597 million, an increase of RMB4,249 million over the end of previous year; NPL ratio increased by 0.09 percentage points to 1.76%; the balance of special-mention loans was RMB64,131 million, an increase of RMB12,976 million, with a ratio of 4.60%, up 0.40 percentage points compared with the end of previous year.

During the reporting period, the Group took active steps in response to the serve risk situation at home and abroad. Specifically, it strengthened internal management, held a close grip over full-flow credit management and accountability, kept improving the structure of industries, regions and customers, enhanced the quality of newly-increased credit constantly, and intensified efforts to recover and dispose of existing problematic loans. Thanks to these moves, its credit business operated stably and overall risk remained under control.

2. Restructured loans and overdue loans

Restructured loans and overdue loans

(Unit: RMB1 million)

Category	Balance at the beginning of the period	Balance at the end of the period	Percentage (%)
Restructured loans	189	237	0.02
Overdue loans	57,375	55,666	3.99

Note: Overdue loans include the loans with overdue principal or interest. If the principal or interest of any period of a loan is overdue for one day or above, the whole loan shall be classified as an overdue loan.

At the end of the reporting period, the book balance of the Group's restructured loans amounted to RMB237 million, an increase of RMB48 million over the end of previous year.

At the end of the reporting period, the balance of overdue loans at the Group was RMB55,666 million, a decrease of RMB1,709 million over the end of previous year, with a ratio of 3.99%, down 0.73 percentage point compared with the end of previous year.

viii. Charge and write-off of allowance for impairment losses on loans

(Unit: RMB1 million)

Item	End of 2017
Balance at the beginning of the year	32,299
Charge for the year	16,418
Recovery of loans and advances that had been written off	395
Less: Transfer-out caused by increase of discounted value	943
Less: Write-offs in the year	9,672
Balance at the beginning of the year	38,497

Methods used in charge of allowance for impairment losses on loans:

The Company assessed the impairment losses on all loans on the balance sheet date based on two methods: individual assessment and collective assessment.

As to the single loan with a large amount, the Company applied the individual assessment method to test the impairment. If an objective evidence could indicate the loan had impairment loss, the loss amount shall be measured at the difference between the book value of the loan and the discounted value of estimated future cash flows, and allowance for impairment loss on loans would be set aside and recognized in the loss of the period; the solvency of the borrower, reasonable value of the collateral, compensatory ability of the guarantor and other factors shall be fully considered in the impairment testing.

The single loan with a small amount and unimpaired loan tested by the individual assessment shall be included in the loan portfolio with similar characteristics. Their impairment losses shall be assessed collectively, and corresponding allowance for the impairment losses shall be recognized in the profit or loss.

ix. Interest receivables and charge of allowance for bad debts

(Unit: RMB1 million)

Item	Balance at the beginning of the period	Increase during the period	Recovery for the period	Balance at the end of the period
Interest receivable	13,807	1,697,200	1,695,645	15,362

Charge of allowance for bad debts of interest receivables:

During the reporting period, as the Group inspected the interest receivables and there was no impairment, the allowance for bad debts was not set aside.

Writing-off procedures and policy of bad debts:

As for the items in line with the conditions of writing-off, the Company adopted the procedures of declaration by the branches and approval by the Head Office: relevant departments of branches organized the declaration and review for the bad debts writing-off, submitted to the president panel of branches for review and approval and then reported it to the Head Office; after being reviewed by relevant departments of the Head Office and approved by the Asset Risk Disposal Committee, the items were written off.

In the process of bad debts writing-off, the Company abided by the principle of strict writing-off conditions, providing definite evidences, seriously investigating responsibilities, reporting, reviewing and approving one by one and level by level, keeping confidential and "maintaining filing after writing-off". After the bad debts were written off, the management responsibility was strictly carried out and diversified methods were adopted in the continuing recourse.

x. Foreclosed assets

(Unit: RMB1 million)

Category	Amount at the end of the period		Amount at the beginning of the period	
	Amount	Allowance for impairment losses	Amount	Allowance for impairment losses
Housing properties	1,726	398	1,450	396
Equity	1,397	42	36	5
Others	25	19	26	19
Total	3,148	459	1,512	420

At the end of the reporting period, the book balance of the Company's repossessed assets was RMB3,148 million, of which, real estate's amounted to RMB1,726 million, accounting for 54.83% of the total; equity's totaled RMB1,397 million, accounting for 44.38% of the total; and others' aggregated to RMB25 million, accounting for 0.79%% of the total.

xi. Financial bonds held

(Unit: RMB1 million)

Category	Amount
Financial bonds of policy banks	90,807
Financial bonds of commercial banks	57,272
Subordinated bonds of commercial banks	30
Subordinated bonds of insurance companies	100
Hybrid capital bonds of commercial banks	400
Tier 2 capital bonds of commercial banks	100
Total	148,709

Of which, material financial bonds:

(Unit: RMB1 million)

Category	Par value	Annual interest rate (%)	Maturity date	Allowance for impairment losses (in original currency)
ADBC Financial Bonds Issue 8 of 2017	3,520	3.61	2018/04/21	–
CNCB Financial Bonds of 2017	3,300	4.20	2020/04/17	–
CDB Financial Bonds Issue 15 of 2016	3,230	2.65	2019/10/20	–
China Guangfa Bank Financial Bonds Issue 2 of 2016	3,000	3.52	2021/05/25	–
CMBC Financial Bonds Issue 1 of 2016	3,000	2.95	2019/10/28	–
CDB Financial Bonds Issue 5 of 2017	2,870	3.88	2020/04/19	–
ADBC Financial Bonds Issue 7 of 2017	2,560	3.98	2020/04/19	–
SPD Bank Financial Bonds Issue 2 of 2017	2,500	4.20	2020/04/28	–
CNCB Financial Bonds Issue 1 of 2017	2,500	4.20	2020/05/24	–
CMBC Financial Bonds Issue 1 of 2017	2,200	4.00	2020/03/09	–

xii. Development and profit/loss of wealth management business, asset securitization, custody, trust and premier wealth management during the reporting period

1. Development and profit/loss of wealth management business during the reporting period

During the reporting period, all the matured wealth management products of the Company have been paid as scheduled, generating an investment return of RMB30,244 million, a year-on-year increase of RMB4,969 million or 19.66%, and wealth management fee-based income of RMB6,981 million, up RMB1,141 million or 19.54%.

2. Development and profit/loss of asset securitization during the reporting period

During the reporting period, the Company issued the first securities backed with assets relating to personal home mortgage loans worth RMB2,201 million, and the first non-performing assets backed securities worth RMB670 million, thus diversifying the types of asset-backed securities products. These products could help the Company mobilize its existing assets, promote structural adjustment, and deliver better customer services.

3. Development and profit/loss of custody business during the reporting period

During the reporting period, assets under the Company's custody scaled up substantially. The Company had 1,656 products under custody, covering securities investment funds, securities dealers' asset management schemes, banking wealth management, insurance asset management programs, asset-backed plans, and equity investment funds with a total amount of RMB2,735,733 million, an increase of 25.88% from the beginning of the year. The income from the fee-based business under trust throughout the year totaled RMB969 million, representing a year-on-year increase of 9.12%.

4. Development and profit/loss of trust business during the reporting period

Not applicable.

5. Development and profit/loss of premier wealth management business during the reporting period

During the reporting period, the premier wealth management business line of the Company upheld the principle of putting customer at the heart, kept pushing ahead with comprehensive customer operations, provided cross-market, diversified services with high-net-worth customers, and continued to seek for the robust, sustainable development by taking the following measures: strengthening compliance sales management, promoting agency sales more vigorously, cooperating with funds, trusts, securities and others in more ways, working harder in organizing professional trainings, building the "dual entry" system with constant efforts, and highlighting the importance of compliance sales. At the end of the reporting period, the Company ran a total of 19 premier wealth management centers, which generated an accumulative sale of personal wealth management products worth RMB1.69 trillion, an agency insurance premium totaling RMB1,507 million, a trust scale sold by proxy of RMB1,587 million, a fund scale sold by proxy of RMB27,799 million, and a fee and commission income from premier wealth management in the amount of RMB486 million.

xiii. Derivative financial instruments held

(Unit: RMB1 million)

Category	Contractual/ nominal amount	Fair value	
		Assets	Liabilities
Foreign exchange forwards	15,607	261	148
Foreign exchange swaps	692,666	2,986	1,538
Option contracts	19,300	9	10
Option contracts	23	–	–
Total		3,256	1,696

xiv. Off-balance-sheet items that will have material impact on financial position and operating results

(Unit: RMB1 million)

Item	Balance at the end of the year	Balance at the beginning of the year
Credit commitments	481,323	475,998
Of which,		
Irrevocable loan commitments	2,609	5,269
Bank acceptance drafts	237,638	273,235
Letters of guarantee issued	21,889	20,623
Letters of credit issued	75,807	73,508
Lease commitments	7,508	7,272
Capital commitments	161	188

Note: Credit committee data exclude unused credit card limits. Lease commitment means operating lease commitment.

The above-mentioned off-balance-sheet items might have impact on the Group's financial position and operating results, which depends on whether the related matters will occur in the future. Under certain conditions in the future, they may be converted to the actual obligation of the Group in accordance with the recognition principle of contingencies.

xv. Risks and risk management

During the reporting period, the bank-wide risk management work constantly aimed to act on regulatory requirements, never overstep bottom lines for risk management, and put various risks under efficient control, continued to improve the comprehensive risk management system, pushed ahead with the single risk management, and lifted the risk management standards to a higher level. As a result, all business lines sustained their stable and sound development.

1. Credit risk management

(1) Business activities incurring credit risk: Credit risk refers to the possibility of loss and uncertainty of income caused by customer default or decreased credit standing to a commercial bank, when the bank operates credit, inter-bank lending and investment businesses. The credit risk of the Group mainly exists in the on-balance-sheet and off-balance-sheet businesses including loans and advances, placements with banks and other financial institutions, inter-bank lending, bond investments, bill acceptance, L/C, and L/G.

(2) Organizational framework and division of responsibilities of credit risk management: The Company has established a mutually restricted credit risk management organizational framework with reasonable work division and definite responsibilities. The Related Party Transactions Control Committee and the Risk & Compliance Management Committee are established under the Board of Directors to be responsible for the formulation of related party transactions management and bank-wide risk management strategies respectively; the Credit, Investment and Financing Policy Committee of the Head Office is responsible for the formulation, organization and implementation of material credit risk management policies; risk management and internal control committees of the Head Office and branches review comprehensive risk management matters, arrange and coordinate risk management and internal control work; credit risk management departments of the Head Office and branches shall be responsible for credit risk management of the whole bank and local branches; according to the authorization system and business risk profile, the Company conducts professional approval of important industries and businesses and continues to expand professional approval scope; the Company strengthens functions of each link of credit business, and sets up mutually restricted positions with definite responsibilities and smooth operation.

(3) Credit risk management and control policy during the reporting period: During the reporting period, the Group upheld the philosophy that asset quality is as important as lifeblood in response to the complicated risk situation at home and abroad. Specifically, it got actively involved in the mainstream economic communities and high-quality projects by refining the structure of industries, regions and customers; substantially controlled material risks with respect to regions, industries and group customers by such means as strengthening management of delegating power to branches, pursuing differentiated industry thresholds, and keeping a tight reign on concentration; and spared no effort to control credit risk from multiple perspectives through putting in place an efficient organizational structure, remaining keenly aware of approval procedures, intensifying due diligence efforts, and seeking for new ways to recover NPLs. By doing so, it greatly boosted various business lines towards quality development, and enabled overall stable quality of credit assets.

(4) Credit asset risk classification procedures and methods: Pursuant to the requirements of CBRC's *Guidelines on Loan Risk Classification*, the Company classified credit asset risks in consideration of such non-financial factors as the solvency, willingness to repay, repayment records and guarantee condition of the borrowers and their internal management, according to the step-by-step identification procedures: preliminary classification by the customer manager, review by the customer manager in charge, and then review, recheck and identification by the regional credit risk management personnel.

(5) Credit risk profile

Credit exposures: At the end of the reporting period, without regard to the available collateral or other credit enhancements, total on and off-balance-sheet credit exposures of the Group amounted to RMB2,963,747 million, including on-balance-sheet business exposure of RMB2,482,424 million, 83.76% of the total, and off-balance-sheet business exposure of RMB481,323 million, 16.24% of the total.

Risk concentration: At the end of the reporting period, the balance of single largest legal-person customer loans of the Group was RMB6,250 million, accounting for 2.92% of net capital; the balance of top 10 single legal-person customer loans was RMB36,320 million, accounting for 16.96% of net capital.

For details of loan distribution by industry and geographical area, please refer to the "Loan Extension" of this report.

Non-performing loan distribution by industry and geographical area: At the end of the reporting period, wholesale & retail, manufacturing and mining pooled most of the Group's non-performing loans, with NPL ratios of 4.98%, 3.89% and 3.39% respectively, up 0.45, 0.34, and 0.44 percentage point over the end of the previous year. In terms of geographical distribution, NPLs were concentrated in Southern China, Central China, Northern China and Northeastern China with an NPL ratio of 1.99% in Southern & Central China, up 0.04 percentage point over the end of the previous year, and 1.88% in Northern & Northeastern China, up 0.22 percentage point over the end of the previous year. The Group's NPL ratio in Eastern China and Western China was below the average level of the Group.

(6) Credit risk management measures in 2018: Nowadays, the Chinese economy is transitioning from a phase of rapid growth to a stage of high-quality development. Despite the appearance of positive signs, some regions and industries will be further exposed to credit risk due to the policies for de-leveraging and environmental pollution control. Therefore, the banking industry is still confronted with mounting pressures from credit risk control. In 2018, the Company will further intensify its interpretation into credit policies, and guide how credit assets can be allocated and structured better; keep a tighter reign on full-flow credit risk management, prioritize the control over key links, assign clearly-cut responsibilities to specific business links and posts on different levels, and stand fast with each pass relating to risk control; identify all due diligence responsibilities and hold related entities and individuals accountable strictly, and build up the awareness of undertaking credit responsibilities; create new risk control technologies and apply them into practice faster, and enhance the decision-making efficiency and risk management capacity; work harder to mitigate and dispose of the exposed risks, explore for more channels to dispose of risk more efficiently and in a market-based way, and focus efforts on put asset quality under efficient control.

2. Explanation on liquidity risk status

In 2017, the central bank pursued the prudential and neutral monetary policy. As a result, the market liquidity revealed an overall tightened momentum, and the interest rates went up remarkably and triggered intensified fluctuations at some time points. In response to the liquidity-tightened market landscape, the Company adopted the balanced liquidity risk appetite, strengthened asset and liability management, maintained the stable structure of assets and liabilities, did better in monitoring analysis and expectation management, got ready for liquidity risk control in advance, exercised stricter management over term mismatch and liquidity quotas, conducted stress tests and emergency drills, and highlighted the significance of risk pre-warning and emergency response. During the reporting period, the Company's liquidity remained stable as a whole without any payment difficulties, default or deferred payment. All regulatory indicators relating to liquidity reached the prescribed standards.

In 2018, the Company will maintain a reasonable reserve level, enhance daily management standards, strengthen management to ensure the match between assets and liabilities, and put liquidity under process monitoring, so as to make sure liquidity can operate stably.

3. Explanation on market risk status

(1) Market risk management: In 2017, the Company continued to strengthen market risk management, by improving the risk appetite and quota management, shoring up the market risk monitoring, analysis and research, and timely adjusting the risks relating to interest rate and exchange rate. At the same time, it kept closely informed of the latest regulatory requirements on interest rate risk for the banking book, and did a better job in measuring and controlling such risk. In 2017, the whole bank abided by market risk appetite well, with less market risk capital tie-up and generally controllable market risk.

(2) Interest rate risk status: In 2017, China pursued the prudential and neutral monetary policy. The central bank flexibly adjusted the liquidity in the money market by open market operations, medium-term lending facility (MLF) and other instruments, driving up interest rates in the market. While putting the interest rate risk under dynamic monitoring and analysis, the Company employed multiple tools to intensify the management of interest rate risk arising from banking book and trading book products. At the end of 2017, the re-pricing maturity of RMB and USD interest rates of the Company was distributed reasonably, and interest rate risk borne was kept within a reasonable range.

(3) Exchange risk status: In 2017, major economies in the world including the US gradually revealed a pickup trend; the USD index continued to fall, RMB appreciated against USD at the rate of 6.16% throughout the year; and China Foreign Exchange Trade System (CEFTS) posted a basically stable exchange rate index. Major currency and bulk commodity prices in international market remained volatile in 2017. The Company kept a close eye on RMB exchange rate movement and changes in the international financial market, continued to monitor exchange rate risk, and shored up the management of quotas relating to foreign exchange business. At the end of 2017, the Company's foreign exchange risk exposure was relatively small and the exchange risk was controllable.

In 2018, it is expected that fiscal policy will be more proactive and effective, monetary policy will remain prudent and neutral, and financial regulation will become more tightened. The Company will actively respond to the complicated market environment, strengthen market situation analysis and prejudgment, and continuously improve management of market risk and interest rate risk for the banking book.

4. Explanation on operational risk status

During the reporting period, the Company continued to identify, monitor, assess, measure and report on operational risk, and the operational risk management delivered a stable performance in general.

The Company enhanced operational risk identification to prevent and control operational risk at source. It organized each major business line to streamline procedures and conduct self-assessment of operational risk and control, optimized assessment procedures, and conducted assessment with quality and efficiency further assured. Besides, it also stepped up efforts in monitoring key risk indicators, and issued pre-warnings against operational risk for efficient control effect. The Company timely collected operational risk events and loss data and enhanced the analysis and application. In the meantime, it also printed and distributed the manual on major operational risk points and precautions, gave pre-warnings against typical risk events timely, and exercised tightened control over key business area and links. It organized trainings on operational risk management system, released developments on operational risk management at fixed intervals of time, and enhanced operational risk management personnel's awareness and capability of performing their duties.

In 2018, the Company will continue to improve operational risk management system, give prominence to the prevention and control of operational risk in the areas vulnerable to such risk, and keep improving operational risk management.

5. Explanation on status of other risks

Other risks faced by the Company mainly consist of internal control & compliance risk, IT risk, reputational risk and country risk.

Internal control & compliance risk: The Company placed business policies under meticulous management, and drafted the *Hua Xia Bank Business Policy Management Manual* and the *Hua Xia Bank Business Policy Post-assessment Rules*. To act on the regulatory requirements set forth by CBRC, it organized a host of dedicated crackdowns against misconducts prevailing in the financial market, "three violations", "three arbitrages", and "four improper behaviors", inspects on the "board of directors, board of supervisors, and senior management" as well as a close look back for "Two Enhancements and Two Containments". By doing so, it intended to self-examine its conducts, corrected what was wrong and hold related entities and individuals accountable. In addition to revising the *Hua Xia Bank Fraud Management Measures* and the *Hua Xia Bank Fraud Case Handling Measures*, the Company focused on screening out four major types of fraud cases, organized risk screening, unannounced inspections, specialized inspections against fraud risk, and took active steps to rectify the spotted problems. At the same time, the Company also improved AML management policies, put the AML platform system (two phases) online, and further standardized the AML management. It also hosted the educational activities themed on "learning new regulatory rules, never overstepping bottom lines for risk management, and operating as prescribed by laws and regulations", drafted and distributed the development on compliance work, helped the entire staff to build up their awareness of operational compliance, and forged a sound compliance culture where employees cannot, dare not or are unwilling to commit any non-compliance conducts.

IT risk: While fully implementing various requirements raised by the competent state authority and regulator for IT risk management, the Company kept improving its related working mechanisms and institutions, among which the three defence lines where technological, risk and audit departments made the bulk played the most prominent role. An information system disaster recovery framework that consists of "two places and three centers" was established at the Company. As a result, it managed to put all its important information systems under the coverage of disaster recovery framework, wrapped up the drive of the data center to cover the two buildings with dual active platforms, and conducted the system switch drills for the sake of disaster recovery. Thanks to these efforts, the information systems of the Company operated stably and the business continuity got further improved. Besides, the Company also introduced information assets classification standards, put such assets under classified protection and control, and guarded them against from security risk throughout the whole lifecycle. It established an integrated information security risk sensing platform, did a better job in analyzing and keeping up with the overall information security situation, carried out IT risk assessment regularly, and enhanced the IT risk control capability constantly.

Reputational risk: In 2017, the Company centered on the bank-wide development strategy to improve its reputational risk management system and mechanism continuously. Specifically, it self-examined every aspect of its operations for reputational risk, thoroughly screened out the potential risk points of all business lines, products, and service flows, and constantly strengthened basic management. Besides, the Company also organized reputational risk-themed trainings and drills, so as to help all employees build up their risk awareness and handling capacity. It actively responded to the concerns raised by media outlets, and kept close contacts with all stakeholders and the public. During the reporting period, the Company improved its reputational risk management standards constantly, and gained a better corporate image and reputation.

Country risk: The Company kept a close eye on the risk of related countries and regions, by monitoring the assets exposed to country risk monthly, rating country risk and setting aside reserve quarterly, and reported country risk exposure and provision statements to the regulators every half a year. Country risk mainly involved Hong Kong and the US. The business exposure accounted for a low proportion of the on-balance-sheet assets. So the bank-wide country risk remained under control as a whole.

xvi. Innovative products

The Company has always engaged in product R&D and business innovation in line with market changes and customer needs. During the reporting period, it developed and optimized a total of 52 products and plans that served various customers. Besides, it kept rolling out products backed by financial technologies. As bill pool-based online financing products for corporate customers, supply chain-based online financing products, “Hua Xia E Loan” products for individual customers, new direct banking products, and off-working-hours wealth management products hit the market, the Company was able to provide customers with intelligent, convenient financial services. To enhance its financing service capacity, it employed various domestic and foreign financing products and channels such as syndicated loans, industry fund investments, M&A loans, and cross-border directing loans. When it came to cash management services, the Company continued to uphold the tenet of “facilitating transactions, generating gains from funds”, combined the universal and selected versions of cash management toolkit, and continued to improve the functions available for customers of all sizes. With respect to serving MSEs, it implemented the strategy of becoming a financial service provider for MSEs, shored up its support for MSEs, and rolled out many financial products like e-commerce loans, online loans and photovoltaic loans in the light of operational characteristics of MSEs.

SECTION V SIGNIFICANT EVENTS

I. PROFIT DISTRIBUTION PLAN/PLAN ON STRENGTHENING OF CAPITAL BASE WITH CAPITAL RESERVE

i. Formulation, implementation or adjustment of cash dividend policy

According to the *Articles of Association of Hua Xia Bank Co., Limited*, the Company can distribute dividends in the form of cash or share or combination of both, and shall maintain the continuity and stability of profit distribution policy. The Company will give priority to the profit distribution in cash. Total profit distributed in the form of cash in the last three years was no less than 30% of the annual average distributable profit realized during the period.

The profit distribution plan for 2016 was reviewed and approved at the Annual General Meeting for 2016 and took effect on 29 June 2017. The distribution plan accorded with the Articles of Association, the distribution standard and proportion were definite and clear, and relevant decision-making procedures and mechanism were complete. Independent directors performed their duties and made their due contributions. Minority shareholders were provided with opportunities to fully express their opinions and appeals, and their legal rights and interests were sufficiently safeguarded. Total profit distributed in the form of cash in the last three years was no less than 30% of the annual average distributable profit realized during the period.

ii. Profit distribution plan and plan on strengthening of capital base with capital reserve in the recent three years (including the reporting period)

(Unit: RMB1 million)

Distribution year	Bonus shares distributed per ten shares	Dividends distributed per ten shares (RMB, before tax)	Shares recapitalized per ten shares	Cash dividend (before tax)	Net profit of the year	Percentage (%)
2017	–	1.51	–	1,936	19,321	10.02
2016	–	1.81	2	1,934	19,323	10.01
2015	–	3.63	–	3,879	18,581	20.88

According to the *Administrative Measures for Reserve Fund Provisions of Financial Enterprises* (C.J.[2012] No. 20) released by the Ministry of Finance and the *Articles of Association of Hua Xia Bank Co., Limited*, the Company made statutory surplus reserve based on the net profit audited by the accounting firm, set aside general reserve from net profit at the end of the year to cover unidentified possible losses, and distributed ordinary share dividends to shareholders based on the distributable profit audited by the accounting firm. The profit distribution plan for 2017 of the parent company is set forth below:

1. RMB1,932,134,408.31 or 10% of the net profit of 2017 (RMB19,321,344,083.12) as audited by the accounting firm is set aside as statutory surplus reserve.

2. Pursuant to the *Administrative Measures for Reserve Fund Provisions of Financial Enterprises* (C.J. [2012] No. 20) released by MOF, the balance of general reserve shall not be less than 1.5% of the balance of assets exposed to risks and losses at the end of the period. RMB1,552 million is to be set aside as general reserve for 2017.

3. Ordinary share dividends are to be distributed to shareholders in addition to statutory profit distribution in comprehensive consideration of return on shareholders' investments, regulatory requirement on capital adequacy ratio and better promotion of the Company's sustainable development. With 12,822,686,653 shares outstanding at the end of 2017 as the base, a total of RMB1,936,225,684.60 will be distributed in cash at RMB1.51 (before tax) per 10 shares. The retained profits of 2017 will be used in replenishing capital and distributed in coming years.

The above-mentioned profit distribution plan shall be implemented within two months after the Annual General Meeting for 2017 of the Company reviews and approves it.

II. PERFORMANCE OF COMMITMENTS

The Company's shareholder PICC Property and Casualty Company Limited committed not to transferring the Company's shares acquired from the transfer in 2016 within five years following the delivery date.

Committed by	PICC Property and Casualty Company Limited
Commitment type	Other commitment made in the equity change report
Commitment	Committed not to transferring the Company's shares acquired from the transfer within five years following the delivery date
Commitment date	17 November 2016
Commitment term	5
Implemented in a strict and timely way (Yes/No)	Yes

III. FUND OCCUPANCY AND RECOVERY DURING THE REPORTING PERIOD

During the reporting period, as audited and assured by Deloitte Touche Tohmatsu Certified Public Accountants LLP, no funds of the Company were occupied for non-operating purposes by controlling shareholder and other related parties.

IV. EXPLANATION ON THE NONSTANDARD AUDITOR'S REPORT

Not applicable.

V. ENGAGEMENT AND REMOVAL OF INTERMEDIARIES

The Company engaged Deloitte Touche Tohmatsu Certified Public Accountants LLP as the external auditor of the 2017 financial statements with an audit fee of RMB4.38 million and as the auditor of internal controls in 2017 with an audit fee of RMB1.05 million. Deloitte Touche Tohmatsu Certified Public Accountants LLP has provided audit service for the Company for five years.

VI. MATERIAL LEGAL PROCEEDINGS AND ARBITRATIONS

During the reporting period, the Company was not involved in any material legal proceedings or arbitrations. As at 31 December 2017, the Company had 557 pending lawsuits involving RMB10 million or above individually, totaling RMB23,486 million, of which five cases that involved RMB410 million were brought against the Company. The Company has made full provisions for anticipated liabilities that may arise from pending lawsuits against the Company.

VII. PENALTY IMPOSED ON THE COMPANY, AS WELL AS ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS AND SHAREHOLDERS HOLDING OVER 5% SHARES

Not applicable.

VIII. CREDIT STANDING OF THE COMPANY'S CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

Not applicable.

IX. STOCK INCENTIVE PLAN, EMPLOYEE STOCK OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVE MEASURES OF THE COMPANY AND INFLUENCE THEREOF

Not applicable.

X. MATERIAL RELATED PARTY TRANSACTIONS

i. Loans to shareholders with a stake of 5% or higher

Loans to shareholders with a stake of 5% or higher in the Company at the end of the reporting period are shown below:

(Unit: RMB1 million)

Name of shareholder	Number of shares held	Outstanding loans at end of 2017	Outstanding loans at end of 2016
Shougang Group Co., Ltd.	2,599,929,412	6,250	6,020

ii. Material related party transactions

1. Outstanding loans to shareholders with a stake of 5% or higher in the Company and the related companies controlled by them at the end of the reporting period, with individual amounts of RMB30 million or above, are shown below (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds):

(Unit: RMB1 million)

Related party	Outstanding loans at end of 2017	% of total loans
Shougang Group Co., Ltd.	6,250	0.47
Tonghua Iron & Steel Group Co. Ltd.	650	0.04
Guiyang Shougang Special Steel Co., Ltd.	600	0.04
Jilin Tonggang Mining Co., Ltd.	250	0.02
Bazhou Kaihong Mining Co., Ltd.	150	0.01
Beijing Shougang Machinery & Electric Co., Ltd.	139	0.01
Beijing West Industries Co., Ltd.	120	0.01
Shougang Yili Iron & Steel Co., Ltd.	120	0.01
Kuche County Tianyuan Cocking Co., Ltd.	110	0.01
Beijing Shougang Alliance of Xingang Science & Trade Co., Ltd.	100	0.01
Shougang Changzhi Iron & Steel Co., Ltd.	47	0.00
Shougang Penglong Rolled Steel Co., Ltd.	32	0.00

2. At the end of the reporting period, the Company held RMB1,450 million bonds of State Grid Corporation which was related to State Grid Yingda International Holdings Corporation, Ltd., RMB100 million subordinated bonds of PICC Health Insurance Company Limited which was related to PICC Property and Casualty Company Limited, and RMB110 million short-term financing bonds of Huaneng Lancang River Hydropower Co., Ltd.

3. At the end of the reporting period, the Company issued banker's acceptance bills of RMB696,000,000 (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) to Shougang Group Co., Ltd. The Company issued banker's acceptance bills of RMB40,300,000 (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) to Shougang Penglong Rolled Steel Co., Ltd. which is related to Shougang Group Co., Ltd. The Company issued letters of credit of RMB405,000,000 million, RMB160,848,000 equivalent, RMB134,985,900 equivalent, and RMB43,124,000 million equivalent (all with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) to Jilin Tonggang Mining Co., Ltd., Tonghua Iron and Steel Group Import & Export Co., Ltd., Tonghua Iron and Steel Co., Ltd., and China Shougang International Trade & Engineering Corporation, respectively, all of which are related to Shougang Group Co., Ltd. It conducted discounts of RMB498,020,000 (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) and bill pool-pledged financing of RMB93,000,000 with Shougang Group Finance Co., Ltd.

The Company issued banker's acceptance bills of RMB160,000,000 (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) to State Grid International Leasing Company Ltd. which is related to State Grid Yingda International Holdings Corporation, Ltd. It issued banker's acceptance bills of RMB150,000,000 (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) to China Energy (Shanghai) Industrial Investment Co., Ltd. which is related to State Grid Yingda International Holdings Corporation, Ltd.

The Company disbursed outstanding loans of RMB100,000,000 (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) to Zhangjiagang Shazhou Power Co., Ltd. It disbursed outstanding loans of RMB80,000,000 (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) and issued banker's acceptance bills of RMB70,000,000 (with deduction of the amount of margin deposits, pledged certificates of deposit and treasury bonds) to Zhengzhou Yuzhong Energy Co., Ltd.

4. At the end of the reporting period, the Company disbursed outstanding loans of RMB8,785 million to its related companies, accounting for 0.66% of total loans. Considering quantity, structure, quality and potential exposures of those related party transactions, the existing related loans would not exert material impact on the Company's normal operation.

iii. Management, pricing principle and basis of related party transactions

During the reporting period, pursuant to the *Administrative Measures for Related party Transactions between Commercial Banks and Their Insiders or Shareholders* released by CBRC, the Company further tightened the management and control of related party transaction risks, reasonably controlled quotas of related party transactions and proactively adjusted the transaction structures. These moves helped to further improve related party transaction management and effectively control related party transaction risks. The Company strictly implemented the CBRC's *Administrative Measures for Related party Transactions between Commercial Banks and Their Insiders or Shareholders*, and conducted related party transactions in accordance with the commercial principle and based on the pricing principle and basis that the condition is not lower than that of similar non-related party transactions.

XI. MATERIAL CONTRACTS AND PERFORMANCE OF OBLIGATIONS THEREUNDER

i. Material custody, contract and lease

During the reporting period, the Company did not engage in any material custody or contracting of assets of other companies, or other companies did not take custody, engage in contracting of or lease any assets of the Company, either.

ii. Material guarantee

Except for financial guarantees within the business scope as approved by CBRC, the Company had no material guarantees to be disclosed during the reporting period.

iii. Other material contracts

During the reporting period, there was not any material dispute over contracts.

XII. INDEPENDENT OPINIONS OF INDEPENDENT DIRECTORS ON EXTERNAL GUARANTEES

Pursuant to applicable regulations and requirements of CSRC, Independent Directors of the Company reviewed the external guarantees of the Company in 2017 on a fair, impartial and objective basis. Specific review opinions are hereby given below:

The external guarantee service of the Company is a part of the ordinary banking services within the business scope of the Company as approved by the People's Bank of China (PBOC) and CBRC. At the end of the reporting period, outstanding guarantees of the Company amounted to RMB21,889 million, an increase of RMB1,266 million compared with the end of previous year.

The Company enhanced guarantee risk management by including guarantee activities into centralized credit facility management, conducting stringent due diligence, approval and management, and strengthening risk identification, assessment, monitoring and control, which had effectively controlled guarantee risks. During the reporting period, external guarantee service of the Company was run normally without any non-compliance.

XIII. FULFILLMENT OF SOCIAL RESPONSIBILITIES

i. Poverty reduction efforts of the listed company

1. Plan on targeted poverty reduction

In active response to the orientation of the government's poverty alleviation policy, the Company fully raised awareness, strengthened policy guidance and worked hard to alleviate poverty in a targeted way in order to carry out the "13th five-year" anti-poverty plan and help lift the areas affected by extreme poverty out of poverty pursuant to the overall arrangement and requirement of the CPC Central Committee, the State Council and the regulatory authorities on poverty relief and development.

Strengthen the building of targeted poverty alleviation mechanism. The Company continued to improve the building of poverty alleviation system and mechanism within the Group and made greater efforts on poverty alleviation from the aspects of policy orientation, credit authorization, credit granting, resource allocation, tolerance of loan risks, human resources and public welfare projects. Besides, it strengthened communication and cooperation with relevant departments of the government, various guarantee companies, policy banks, insurers and industrial funds to draw on one another's advantages and co-build the multi-tiered financial service system.

Support the funding demand of targeted poverty alleviation. The Company actively acted on the philosophy of developing inclusive finance, and promoted the drive of targeted poverty reduction with financial strength. It increased funding for major poverty alleviation projects to help poverty-stricken areas to sustain healthy development of economy and society and lift the poor out of poverty, and promote economic growth and industrial structural upgrade across poverty-stricken areas. At the same time, it continued to improve the financial services for take-over of industrial transfer and development of emerging industries in poverty-stricken areas to encourage the coordinated development of local industries. Besides, the Company also supported ecological construction and environmental protection of poverty-stricken areas for sustainability of economy, society and ecological environment.

Provide innovative products and services for targeted poverty alleviation. According to local conditions of poverty-stricken areas, the Company carried forward financial innovation, developed and designed tailor-made products and services by means of product portfolios, product R&D, integrated packaging, service innovation, and effectively increased the diversity of financial product/service offerings for the anti-poverty purpose. At the same time, it continued to build various institutions including small sub-branches, micro and small-sized sub-branches, and community sub-branches, provided a large scale of standardized financial services for MSEs and personal customers in batches, expanded the coverage of basic financial services, protected the rights and interests of the financially vulnerable groups, and enhanced the level of financial services for the poor.

2. Summary of targeted poverty alleviation efforts in 2017

During the reporting period, the Company deeply implemented the orientation of China's anti-poverty policy and its plans for targeted poverty reduction. While deepening a variety of targeted poverty alleviation work relating to finance, it got involved with the work by non-financial means including donation of money and materials and public welfare programs. Cumulatively speaking, the Company provided fund of RMB2,587,223,600 for targeted poverty alleviation, supplied materials worth RMB260,000 and helped 61,189 poor people on files to rid of poverty.

Extend credits to support targeted poverty alleviation. During the reporting period, giving greater play to the guiding role of credit policy, the Company increased credit support for irrigation and water conservancy of poverty-stricken areas, supported the funding demand of local characteristic and advantageous industries like characteristic agriculture and agricultural product processing industry and used assorted financial products and services including corporate/personal credit to address the funding demand of fight against poverty. During the reporting period, the Company financed RMB1,569,412,300 for 32 projects of alleviating poverty through industrial development cumulatively and helped 511 poor people on files to shake off poverty.

Donate money and materials for targeted poverty alleviation. During the reporting period, branches of the Company in many places launched donating events which raised money of RMB8,330,000 and material supplies of RMB260,000.

Win award for targeted poverty alleviation efforts. During the reporting period, the Company was named the "Award for Assuming Social Responsibilities Relating to Targeted Poverty Reduction" at the "Love is Always Around" public welfare ceremony hosted by China Children and Teenager's Fund in 2017; and won the "Social Responsibility Case Award" from Sichuan Banking Association for its anti-poverty work in Dege County.

3. Statistical Form on Targeted Poverty Reduction Efforts of the Company in 2017

(Unit: RMB10,000)

Indicator	Quantity & implementation
I. General	
Incl.: 1. Money	258,722.36
2. Supplies in monetary terms	26.00
3. Number of persons on file who managed to shake off poverty with the Company's help	61,189
II. Itemized contributions	
1. Poverty elimination through industrial development	
Incl.: 1.1 Project types	√ Agriculture and forestry √ Others
1.2 Project number	32
1.3 Project inputs	156,941.23
1.4. Number of persons on file who managed to shake off poverty with the Company's help	511
2. Poverty elimination through education progress	
Incl.: 2.1 Funding for poor students	101.35
2.2 Number of poor students funded	254
2.3 Inputs into improving education resources in poverty-stricken areas	21.00
3. Poverty alleviation through improvement of health conditions	
Incl.: 3.1 Inputs into improving medical and health resources in poverty-stricken areas	10.00
4. Bail-out guarantee	
Incl.: 4.1 Inputs to help the poor with disabilities	1,705.77
5. Poverty alleviation through social endeavors	
Incl.: 5.1 Inputs into fixed-point poverty alleviation	134.00
5.2 Anti-poverty endowment	2,188.56
6. Other projects	
Incl.: 6.1 Project number	8
6.2 Inputs	97,646.45
6.3. Number of persons on file who managed to shake off poverty with the Company's help	60,424
III. Award (Content, Ranking)	1. The "Social Responsibility Case Award" from Sichuan Banking Association for its anti-poverty work in Dege County. 2. The "Award for Assuming Social Responsibilities Relating to Targeted Poverty Reduction" at the "Love is Always Around" public welfare ceremony hosted by China Children and Teenager's Fund in 2017.

4. Subsequent plan on targeted poverty alleviation

Expand the channels of helping and supporting poverty-stricken areas. The Company will refine the setting of outlets at grassroots level and actively promote the presence in poverty-stricken areas to expand local coverage. At the same time, the Company will actively construct the "second bank" and coordinate with offline physical outlets to let farmers in poverty-stricken areas have access to basic financial services online.

Extend more credits for the targeted poverty reduction drive. The Company will further probe into the financial needs of poor people, proceed from its own features as a financial institution, further define the credit policy of using finance to serve targeted poverty alleviation, channel more credit funds to poverty-stricken areas and population, make greater efforts on targeted poverty alleviation in more extensive sectors through industrial development, education progress and social endeavors, increase the accuracy of anti-poverty and actively provide support for poverty-stricken areas and population.

Launch public welfare programs to alleviate poverty in a targeted way. The Company will continue to donate more money and materials to help poverty-stricken areas and population, and push ahead with different series of public-spirited activities; establish a risk control mechanism featuring intellectual sensing, flexible stratification, and technically hard control, work harder to spread financial literacy and protect customers' rights and interests, and help financial consumers in poverty-stricken areas to grasp better risk identification skills; and roll out the public welfare activities themed with "join hands with Guang'ai for happiness".

ii. Fulfillment of social responsibilities

Looking back into the past year, the Company resolutely implemented the philosophy of "innovative, coordinated, green, open and shared development", specified the vision to develop into a modern financial group that is large, strong, stable and excellent, and joined hand in hand with stakeholders to turn dreams into reality and share what was achieved. In 2017, the Company made active efforts to implement the state policies on industry upgrade, by supporting the upgrade of traditional industries, development of strategically emerging industries, and need of agricultural modernization. It put forth the vision of developing "smart finance, digital Hua Xia". While keeping its words, the Company came up with new ways to offer financial services, continued to help Beijing develop its core functions, and weighted its resources towards integrated traffic development in the Beijing-Tianjin-Hebei region. Hua Xia Bank Anxin Sub-branch, the first financial institution in Xiongan New Area, was opened for business. It represented an active practice the Company had made to serve the grand strategy for China's next thousand years and a matter of great national significance. Besides, the Company moderately controlled its credit extended to the industries that suffered from high pollution, high energy consumption and excess capacity, and vigorously developed green credit with the theme of "energy conservation, emission reduction and circular economy", in a bid to optimize the credit structure continuously. At the same time, it also refined its innovative products and services relating to ETC, and worked together with all related parties to protect ecology. During the reporting period, the Company, through its credit, investment and financing policies, integrated its business with the Belt and Road Initiative, Yangtze River Economic Belt, and construction of free trade pilot zones, made innovation in international financial business, and created international business platforms to serve companies and individuals going global. In the meantime, it shored up efforts to grow into a financial service provider for SMEs, and shared what had been achieved with these enterprises. For the vulnerable groups, the Company actively responded to the call for targeted poverty reduction, sought for new approaches to charity, and organized public welfare programs like "Hua Xia Star" and "Plan for Growth of Children of Sanitation Workers". At the same time, the Company upheld the people-centric working principle to create a sound workplace for its employees. In 2017, the Company was conferred the "Award for Best Green Finance Practice under the Category of Social Responsibilities" by China Banking Association, the "Most Socially Responsible Enterprises" by Southern Weekly, the "iResearch Marketing Award" from iResearch Group, and the "Best Public-Spirited Marketing Award" by ifeng.com.

For details, please refer to the *2017 Social Responsibility Report of Hua Xia Bank Co., Limited* disclosed by the Company on the website of Shanghai Stock Exchange (www.sse.com.cn) and the website of the Company (www.hxb.com.cn).

XIV. INDEX OF INFORMATION DISCLOSURES

Matter	Published in (journals)	Date of publication	Published on (website)
Announcement on Resignation of President of Hua Xia Bank	*China Securities Journal, Shanghai Securities News, Securities Times*	2017.01.06	http://www.sse.com.cn
Announcement on Resolutions of the 26th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	2017.01.20	Ditto
Announcement on Resignation of Chairman of Hua Xia Bank	Ditto	2017.03.08	Ditto
Announcement on Resolutions of the 27th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	2017.03.14	Ditto
Notice of Hua Xia Bank on Holding the First Extraordinary General Meeting for 2017	Ditto	2017.03.14	Ditto
Announcement of Hua Xia Bank on CBRC's Approval of Issuing Tier-2 Capital Bonds	Ditto	2017.03.14	Ditto
Announcement of Hua Xia Bank on Distribution of Dividends for Preference Shares	Ditto	2017.03.17	Ditto
Announcement on Resolutions of the 28th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	2017.03.28	Ditto
Announcement on Related Party Transaction of Hua Xia Bank	Ditto	2017.03.28	Ditto
Announcement on Resolutions of the First Extraordinary General Meeting for 2017 of Hua Xia Bank	Ditto	2017.03.30	Ditto
Announcement on Resolutions of the 29th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	2017.03.30	Ditto
Announcement of Hua Xia Bank on PBOC's Approval of Issuing Tier-2 Capital Bonds	Ditto	2017.04.19	Ditto
Announcement on Resolutions of the 30th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	2017.04.29	Ditto
Announcement on Resolutions of the 17th Meeting of the Seventh Board of Supervisors of Hua Xia Bank	Ditto	2017.04.29	Ditto
Notice of Hua Xia Bank on Holding the Annual General Meeting for 2016	Ditto	2017.04.29	Ditto
Special Report of Hua Xia Bank on Retention and Actual Use of Money Raised through Non-public Issuance of Preference Shares in 2016	Ditto	2017.04.29	Ditto
Announcement of Hua Xia Bank on Amendments to the Articles of Association	Ditto	2017.04.29	Ditto
Announcement of Hua Xia Bank on Change of Legal Representative	Ditto	2017.04.29	Ditto
Announcement on Annual Report of Hua Xia Bank in 2016	Ditto	2017.04.29	Ditto
Announcement on First Quarterly Report of Hua Xia Bank in 2017	Ditto	2017.04.29	Ditto

Matter	Published in (journals)	Date of publication	Published on (website)
Announcement on Advance Notice about the Explanation Session of Cash Dividend Distribution of Hua Xia Bank	Ditto	2017.05.12	Ditto
Announcement on Resolutions of the Annual General Meeting for 2016 of Hua Xia Bank	Ditto	2017.05.25	Ditto
Announcement on Resolutions of the 18th Meeting of the Seventh Board of Supervisors of Hua Xia Bank	Ditto	2017.05.27	Ditto
Announcement of Hua Xia Bank on Finishing Issuance of Tier-2 Capital Bonds	Ditto	2017.06.01	Ditto
Announcement on Resignation of Employee Supervisor of Hua Xia Bank	Ditto	2017.06.14	Ditto
Announcement of Hua Xia Bank on Shareholder Name Change	Ditto	2017.06.17	Ditto
Announcement on Annual Equity Distribution for 2016 of Hua Xia Bank	Ditto	2017.06.23	Ditto
Announcement of Hua Xia Bank on CBRC's Approval of Issuing Financial Bonds	Ditto	2017.07.11	Ditto
Announcement on Resolutions of the 31st Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	2017.07.22	Ditto
Announcement of Hua Xia Bank on Adjusting the Mandatory Conversion Price of Preference Shares	Ditto	2017.08.11	Ditto
Announcement on Resolutions of the 32nd Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	2017.08.11	Ditto
Announcement on Resolutions of the 19th Meeting of the Seventh Board of Supervisors of Hua Xia Bank	Ditto	2017.08.11	Ditto
Announcement on Interim Report of Hua Xia Bank in 2017	Ditto	2017.08.11	Ditto
Announcement of Hua Xia Bank on PBOC's Approval of Issuing Financial Bonds	Ditto	2017.08.16	Ditto
Announcement of Hua Xia Bank on Finishing Issuance of Phase-1 Financial Bonds in 2017	Ditto	2017.09.08	Ditto
Announcement on Resolutions of the 33rd Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	2017.10.31	Ditto
Announcement on Resolutions of the 20th Meeting of the Seventh Board of Supervisors of Hua Xia Bank	Ditto	2017.10.31	Ditto
Announcement on Third Quarterly Report of Hua Xia Bank in 2017	Ditto	2017.10.31	Ditto
Announcement on Resolutions of the 34th Meeting of the Seventh Board of Directors of Hua Xia Bank	Ditto	2017.12.29	Ditto

SECTION VI DETAILS OF CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

i. Changes in shares

1. Table on Changes in Shares

(Unit: Share)

	Pre-change		Increase/ Decrease (+,-)	Post-change	
	Number	Percentage (%)	Increase through capital reserve transfer	Number	Percentage (%)
I. Shares subject to restrictions on sales	–	–	–	–	–
II. Shares not subject to restrictions on sales	10,685,572,211	100.00	2,137,114,442	12,822,686,653	100.00
1.RMB-denominated ordinary shares	10,685,572,211	100.00	2,137,114,442	12,822,686,653	100.00
2. Foreign shares listed domestically	–	–	–	–	–
3. Foreign shares listed overseas	–	–	–	–	–
4. Others	–	–	–	–	–
III. Total number of shares	10,685,572,211	100.00	2,137,114,442	12,822,686,653	100.00

2. Explanation on changes in shares

In June 2017, with 10,685,572,211 shares outstanding as the base, the Company used the capital reserve to strengthen the capital base at two shares transferred per ten shares. Then, the Company's total share capital was increased by 2,137,114,442 shares to 12,822,686,653 shares.

3. Influence of share changes on financial indicators including earnings per share and net assets per share in the past year and during the recent period

During the reporting period, with 10,685,572,211 shares outstanding as the base, the Company used the capital reserve to strengthen the capital base at two shares transferred per ten shares. The Company's total share capital was increased by 2,137,114,442 shares to 12,822,686,653 shares, which would affect the number of outstanding ordinary shares but not the amount of owner's equity. At the end of 2016, if calculated at the shares outstanding before capital reserve transfer, basic earnings per share stood at RMB1.84 and net assets per share attributable to equity holders of the listed company amounted to RMB12.37; if calculated at the shares outstanding after capital reserve transfer, basic earnings per share was RMB1.53 and net assets per share attributable to equity holders of the listed company was RMB10.31. At the end of 2017, basic earnings per share stood at RMB1.48 and net assets per share attributable to equity holders of the listed company amounted to RMB11.55. Basic earnings per share were calculated according to the *Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No.9 – Computation and Disclosure of Return on Net Assets and Earnings per Share* (Revision 2010).

ii. Changes in shares subject to restrictions on sales

Not applicable.

II. SECURITIES ISSUE AND OFFERING

i. Securities issue as at the end of the reporting period

Not applicable.

ii. Changes in the total number of shares and shareholder structure as well as the Company's asset & liability structure

In June 2017, with 10,685,572,211 shares outstanding as the base, the Company used the capital reserve to strengthen the capital base at two shares transferred per ten shares. The Company's total share capital was increased by 2,137,114,442 shares. This capital reserve transfer did not cause any change in the shareholder structure and the structure of assets and liabilities.

iii. Individual employee stock ownership

Not applicable.

III. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLER

i. Number of shareholders and shareholdings

(Unit: Share)

Total number of shareholders at the end of the reporting period	117,105	Total number of shareholders at the end of the month immediately before disclosing date of this Annual Report				114,825	
Shareholdings of the top 10 shareholders							
Name of shareholder	Nature of shareholder	Percentage (%)	Number of shares held by shareholders	Increase/ decrease during the reporting period	Number of shares subject to restrictions on sales that were held	Number of pledged or frozen shares	
						Share status	Number
Shougang Group Co., Ltd.	State-owned legal person	20.28	2,599,929,412	433,321,569	0	None	
PICC Property and Casualty Company Limited	State-owned legal person	19.99	2,563,255,062	427,209,177	0	None	
State Grid Yingda International Holdings Corporation, Ltd.	State-owned legal person	18.24	2,338,552,742	389,758,790	0	None	
China Securities Finance Corporation Limited	State-owned legal person	4.45	570,557,877	300,426,250	0	None	
Yunnan Hehe (Group) Co., Ltd.	State-owned legal person	4.37	560,851,200	93,475,200	0	None	
Runhua Group Co., Ltd.	Domestic non-state-owned legal person	2.13	273,312,000	45,552,000	0	Pledged	246,584,502
Huaxia Life Insurance Company Limited – Universal Insurance Product	Others	1.76	225,758,339	37,060,390	0	None	
Shanghai Giant Lifetech Co., Ltd.	Domestic non-state-owned legal person	1.31	167,671,900	27,945,317	0	Pledged	163,000,000
Central Huijin Asset Management Co., Ltd.	State-owned legal person	1.30	166,916,760	27,819,460	0	None	
Buttonwood Investment Holding Company Ltd.	State-owned legal person	0.87	111,297,048	18,549,508	0	None	

Shareholdings of the top 10 shareholders not subject to restrictions on sales		
Name of shareholder	**Number of shares not subject to restrictions on sales that were held**	**Type of shares**
Shougang Group Co., Ltd.	2,599,929,412	RMB-denominated ordinary shares
PICC Property and Casualty Company Limited	2,563,255,062	RMB-denominated ordinary shares
State Grid Yingda International Holdings Corporation, Ltd	2,338,552,742	RMB-denominated ordinary shares
China Securities Finance Corporation Limited	570,557,877	RMB-denominated ordinary shares
Yunnan Hehe (Group) Co., Ltd.	560,851,200	RMB-denominated ordinary shares
Runhua Group Co., Ltd.	273,312,000	RMB-denominated ordinary shares
Huaxia Life Insurance Company Limited – Universal Insurance Product	225,758,339	RMB-denominated ordinary shares
Shanghai Giant Lifetech Co., Ltd.	167,671,900	RMB-denominated ordinary shares
Central Huijin Asset Management Co., Ltd.	166,916,760	RMB-denominated ordinary shares
Buttonwood Investment Holding Company Ltd.	111,297,048	RMB-denominated ordinary shares
Remarks on the connected relation or concerted action of the above shareholders	The Company has no knowledge of any other connected relations among the above-mentioned shareholders.	

Notes:

1. In June 2017, with 10,685,572,211 shares outstanding as the base, the Company used the capital reserve to strengthen the capital base at two shares transferred per ten shares. Then, the Company's total share capital was increased to 12,822,686,653 shares.

2. Shougang Corporation was renamed Shougang Group Co., Ltd.

3. PICC Property and Casualty Company Limited committed not to transferring the Company's shares acquired from the transfer within five years following the delivery date (17 November 2016).

ii. Number of shares subject to restrictions on sales held by top ten shareholders and restrictions on sales

Not applicable.

iii. Particulars of shareholders holding over 5% shares of the Company

The Company has no controlling shareholder or de facto controller. Shougang Group Co., Ltd. is the largest shareholder of the Company.

At the end of the reporting period, shareholders holding over 5% shares of the Company were Shougang Group Co., Ltd. (20.28%), PICC Property and Casualty Company Limited (19.99%) and State Grid Yingda International Holdings Corporation, Ltd. (18.24%).

1. Shougang Group Co., Ltd.

Shougang Group Co., Ltd. (formerly known as "Shougang Corporation") was changed into its current name in May 2017 and restructured from an enterprise owned by the whole people into a wholly state-owned company with the approval of the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality. With organizational code 911100001011200015, Shougang Group has a registered capital of RMB28,755 million and its legal representative is Jin Wei. Shougang Group Co., Ltd. is a large enterprise group with the operation covering different industries, regions and countries. Its core businesses include industries, construction, geologic exploration, transportation, foreign trade, telecommunication, finance and insurance, scientific research and comprehensive technologic service, domestic commerce, public catering, material supply and sales, warehouse, real estate, residential service, consultation, leasing, agriculture, forestry, husbandry, fishery (except for those without special license) and authorized management of state-owned assets; design and production of prints and ads; placement of ads on its self-owned *Shougang Daily*; sewage treatment and recycling; seawater desalination; art creation and performance; operations of sports events (except those involving high risk); operations of sports venues; internet information service; and municipal domestic waste treatment.

The equity relationship between the Company and Shougang Group Co., Ltd. as the largest shareholder is illustrated below:

2. PICC Property and Casualty Company Limited

PICC Property and Casualty Company Limited was sponsored by People's Insurance Company of China in July 2003 after obtaining approval from the State Council and CIRC. It, with a registered capital of RMB14,828.51 million, is the largest property insurer in Asia. The unified social credit code is 91100000710931483R (4-1) and the legal representative is Wu Yan. Scope of business: property loss insurance, liability insurance, credit insurance, accident insurance, short-term health insurance, guarantee insurance and other kinds of RMB or foreign-currency insurance business; reinsurance business in relation to the above-mentioned business; service and consulting in relation to property insurance, accident insurance and short-term health insurance and their reinsurance; business handling on behalf of insurers; investment and fund utilization business permitted by national laws and regulations, and other business prescribed by national laws and regulations or approved by China's insurance regulatory authority.

3. State Grid Yingda International Holdings Corporation, Ltd.

State Grid Yingda International Holdings Corporation, Ltd. (abbreviated as "State Grid Yingda Group Company" and formerly known as "SGCC Asset Management Co., Ltd."), founded on 18 October 2007, is a wholly-owned subsidiary of State Grid Corporation of China with a registered capital of RMB19 billion and Xin Xuwu as its legal representative. Its unified social credit code is 91110000710935089N. It mainly deals with investment and asset operation and management, asset custody; services in corporate restructuring, M&A, strategic placement, start-up business; investment advisory and consultation, etc.

iv. Other major shareholders

As prescribed by CBRC's *Interim Measures on Equity Management at Commercial Banks*, other major shareholders of the Bank include Yunnan Hehe (Group) Co., Ltd., Runhua Group Co., Ltd., and Shanghai Giant Lifetech Co., Ltd.

Yunnan Hehe (Group) Co., Ltd.: At the end of the reporting period, Yunnan Hehe (Group) Co., Ltd. held 4.37% shares of the Company. It has a registered capital of RMB6 billion and its legal representative is Li Jianbo. At the end of the reporting period, Hongta Tobacco (Group) Co., Ltd. held 75% of Yunnan Hehe (Group) Co., Ltd. It is the controlling shareholder of the latter and its de facto controller is China National Tobacco Corporation. Hongta Tobacco (Group) Co., Ltd. was incorporated on 15 September 1995, with a registered capital of RMB6 billion and its legal representative is Wang Yong.

Runhua Group Co., Ltd.: At the end of the reporting period, Runhua Group Co., Ltd. held 2.13% shares of the Company. It has a registered capital of RMB109 million and its legal representative is Luan Tao. At the end of the reporting period, Luan Tao held 49.88% shares of Runhua Group Co., Ltd. and serves as its controlling shareholder and de facto controller.

Shanghai Giant Lifetech Co., Ltd.: At the end of the reporting period, Shanghai Giant Lifetech Co., Ltd. held 1.31% shares of the Company. It has a registered capital of RMB245.4 million and its legal representative is Wei Wei. At the end of the reporting period, Giant Investment Co., Ltd. held 90.49% of Shanghai Giant Lifetech Co., Ltd. It is the controlling shareholder of the latter and its de facto controller is Shi Yuzhu. Giant Investment Co., Ltd. was incorporated on 23 April 2001, with a registered capital of RMB116.88 million and its legal representative is Shi Yuzhu.

v. Special explanation on the Company without controlling shareholder

The Company has no controlling shareholder. Shougang Group Co., Ltd. is the largest shareholder of the Company.

vi. Special explanation on the Company without de facto controller

The Company has no de facto controller. Shougang Group Co., Ltd. is the largest shareholder of the Company.

SECTION VII PREFERENCE SHARES

I. ISSUANCE AND LISTING OF PREFERENCE SHARES IN LATEST THREE YEARS

(Unit: 10,000 shares)

Preference share code	Preference share name	Date of issuance	Issuance price (RMB yuan)	Coupon rate (%)	Issuing number	Date of listing	Number of shares listed for trading	Date of de-listing
360020	Hua Xia Preference Share 1	2016-3-23	100	4.20	20,000	20 April 2016	20,000	–

Notes:

1. According to the Reply of CBRC on the Non-public Issuance of Preference Shares and the Modification of the Articles of Association by Hua Xia Bank (Y.J.F. [2015] No.427) and the Reply on Approving the Non-public Issuance of Preference Shares by Hua Xia Bank Co., Limited (ZH.J.X.K. [2016] No.342), the Bank issued RMB20 billion worth of preference shares in a non-public manner on 23 March 2016 and started transferring them on the comprehensive business platform of Shanghai Stock Exchange since 20 April 2016.

2. The coupon rate of Hua Xia Preference Share 1 in the first five years was 4.20%, including the arithmetic mean (2.59%) of the five-year T-bonds 20 trading days before the cut-off date of payment for the preference shares issued this time (the date just 20 trading days before the cut-off date of payment was excluded) and the fixed premium (1.61%). The coupon rate was adjusted once every five years in light of the change in benchmark interest rates.

3. Use of money raised: As approved by CSRC, the Company privately issued 200 million preference shares at a par value of RMB100 each on 23 March 2016. All the money actually raised after deducting the issuing expenses, netted to RMB19,978 million, were used to replenish the tier 1 capital.

II. NUMBER OF PREFERENCE SHAREHOLDERS AND PARTICULARS OF SHAREHOLDING OF THE TOP 10 PREFERENCE SHAREHOLDERS AS AT THE END OF THE REPORTING PERIOD

(Unit: Share)

Total number of preference shareholders as at the end of the reporting period	15	Total number of preference shareholders at the end of the month immediately before the disclosure date of annual report				15
Particulars of shareholding of the top 10 preference shareholders						
Name of shareholder	Shares held at the end of the period	Increase/ decrease during the reporting period	Percentage (%)	Nature of shareholder	Number of pledged or locked-up shares	Class of shares
Ping An Insurance (Group) Company of China, Ltd. – Participating – Participating personal insurance product	39,100,000	0	19.55	Others	None	Preference share
Ping An Insurance (Group) Company of China, Ltd. – Universal – Universal personal insurance product	39,100,000	0	19.55	Others	None	Preference share
Ping An Insurance (Group) Company of China, Ltd. – Traditional – Ordinary insurance product	39,100,000	0	19.55	Others	None	Preference share
Truvalue Asset Management Co., Ltd.	19,500,000	0	9.75	Others	None	Preference share
Bank of Communications Schroder Asset Management Co., Ltd.	11,200,000	0	5.60	Others	None	Preference share
Bank of Communications Schroder Fund Management Co., Ltd.	8,600,000	0	4.30	Others	None	Preference share
Bank of Beijing Scotiabank Asset Management Co., Ltd.	8,400,000	0	4.20	Others	None	Preference share
China Resources Szitic Trust Co., Ltd. – Investment No. 1 Stand-alone Money Trust	7,300,000	0	3.65	Others	None	Preference share
Bosera Fund Management Co., Ltd.	5,600,000	0	2.80	Others	None	Preference share
China CITIC Bank Co., Ltd.	5,600,000	0	2.80	Others	None	Preference share
AXA SPDB Investment Managers Co., Ltd.	5,600,000	0	2.80	Others	None	Preference share
Connected relations or concert party action among top 10 preference shareholders and among the afore-mentioned shareholders and top 10 ordinary shareholders	Ping An Insurance (Group) Company of China, Ltd. – Participating – Participating personal insurance product, Ping An Insurance (Group) Company of China, Ltd. – Universal – Universal personal insurance product and Ping An Insurance (Group) Company of China, Ltd. – Traditional – Ordinary insurance product are persons acting in concert. Bank of Communications Schroder Asset Management Co., Ltd. and Bank of Communications Schroder Fund Management Co., Ltd. are connected.					

III. PAYOUT OF DIVIDENDS ON PREFERENCE SHARES

i. Distribution of profit from preference shares

Dividends on the preference shares issued by the Bank are paid annually in cash in a non-cumulative way. After receiving dividends at the agreed-upon coupon rate, preference shareholders of the Company will not join ordinary shareholders in the distribution of remaining profit.

On 28 March 2017, the Company paid dividends to all the holders of Hua Xia Preference Share 1 (Stock Code: 360020) that were registered by the closure of market on 27 March 2017. A cash dividend of RMB4.2 (before tax) was paid per preference share at the coupon rate of 4.20% and the dividends distributed this time totaled to RMB840 million.

On 28 March 2018, the Company paid dividends to all the holders of Hua Xia Preference Share 1 (Stock Code: 360020) that were registered by the closure of market on 27 March 2018. A cash dividend of RMB4.2 (before tax) was paid per preference share at the coupon rate of 4.20% and the dividends distributed this time totaled to RMB840 million.

Please refer to the announcements disclosed by the Company on the website of Shanghai Stock Exchange and the website of the Company for details on the dividend payment.

ii. Amount and proportion of dividends distributed on preference shares in the latest three years

(Unit: RMB1 million)

Year	Amount distributed	Distribution proportion
2017	840	100%
2016	840	100%
2015	–	–

Note: Distribution proportion=(Dividend amount distributed/agreed-upon dividend amount paid of the year)×100%

IV. REDEMPTION OR CONVERSION OF PREFERENCE SHARES DURING THE REPORTING PERIOD

During the reporting period, the Company did not redeem or convert any preference shares.

V. RESTORATION OF VOTING RIGHTS OF PREFERENCE SHARES DURING THE REPORTING PERIOD

During the reporting period, the Bank did not restore any voting right of preference shares.

VI. ACCOUNTING POLICY ADOPTED FOR PREFERENCE SHARES AND RATIONALE

According to the *Accounting Standard for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments*, the *Accounting Standard for Business Enterprises No. 37 — Presentation of Financial Instruments* (Revised in 2014) and the *Rules for Distinguishing Financial Liabilities and Equity Instruments and Relevant Accounting Treatment* promulgated by MOF as well as the preference share issuing plan, preference shares issued by the Bank this time shall be calculated as equity instruments.

Equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Company will classify the financial instruments it has issued into equity instruments when all of the following conditions are met: 1) such financial instruments should exclude contractual obligations of delivering cash or other financial assets to another party and contractual obligations of exchanging financial assets or financial liabilities with another party; and 2) the Company's own equity instruments should be or can be used for settlement of such financial instruments in the future. In case of a non-derivative instrument, it shall not include any contractual obligation of settlement with the delivery of variable number of the Company's own equity instruments; in case of a derivative instrument, it can only be settled with fixed number of the Company's own equity instruments exchanging for cash or other financial assets with fixed amount.

On 23 March 2016, the Company issued non-cumulative preference shares to domestic investors in an aggregate amount of RMB20 billion, all of which after deducting issuing cost was recognized into other tier 1 capital. During the existence of the preference shares, the Company has the right to exercise the right to redeem them all or in part on the interest calculation day of each year if being approved by CBRC and meeting relevant requirements within five years after the end of the issuance (i.e. 28 March 2016). Preference shareholders have no right to ask the Company to redeem the preference shares and should not have the expectation on the preference shares being redeemed. The coupon rate of the preference shares is adjusted by stages, i.e. the dividends are distributed in cash at a fixed dividend rate once a year within the five-year dividend rate adjustment period. Upon approval of the Shareholders' General Meeting, the Company has the right to cancel all or part of the dividends distributed on the preference shares, which is not deemed a default event.

Upon the approval of CBRC, all or part of the preference shares issued by the Company this time and still in existence will be converted into ordinary shares of the Company upon the occurrence of the following events that will trigger mandatory conversion of shares to the Company: 1) when Core Tier 1 Capital Adequacy Ratio of the Company falls to 5.125% or below, the Company shall have the right to convert all or part of the preference shares that have been issued and are still in existence into ordinary shares as per the total par value without the prior consent of preference shareholders, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Company to above 5.125%; and 2) when any tier 2 capital instrument trigger event occurs, the Company shall have the right to convert all of the preference shares that have been issued and are still in existence into ordinary shares as per the total par value without the prior consent of preference shareholders.

When the triggers for compulsory share conversion are met, the preference shares that are still in existence will be wholly or partially converted into ordinary shares at a price of RMB14.00 per share subject to the approval of regulatory authority. On 8 July 2015, the Company strengthened the capital base with capital reserve by using every 10 shares for an increase of two shares. On 29 July 2017, the Company strengthened the capital base with capital reserve by using every 10 shares for an increase of two shares. As a result, the price of mandatory share conversion was changed to RMB9.72. From the day when the Board of Directors of the Company approved the preference share issuing plan, the Company will change the price of mandatory share conversion and disclose relevant information according to pertinent provisions whenever shares of the Company change due to distribution of stock dividend, share conversion to strengthen capital base and additional issuance (excluding share capital increase due to conversion of financing instruments issued by the Company and with articles allowing conversion into ordinary shares, e.g. preference share and convertible corporate bond) and rights issue.

In accordance with applicable laws and regulations and the *Reply of CBRC on the Non-public Issuance of Preference Shares and the Modification of the Articles of Association by Hua Xia Bank* (Y.J.F. [2015] No. 427), funds raised from the preference share issuance are used to replenish other tier 1 capital of the Company. When the Company liquidates, preference shareholders of the Company take precedence over ordinary shareholders to be distributed the residual properties of the Company. That is, when the Company liquidates, dividends that have not been canceled nor distributed but have been announced to distributed but not been paid for the period yet as well as the total carrying amount of preference shares held shall be paid from the residual properties after liquidation firstly to preference shareholders; if the residual properties are not sufficient to pay, such dividends and carrying amount will be paid on the basis of the shareholding ratio of preference shareholders.

In conclusion, the Company recognizes the preference shares into other equity instruments according to the articles of the contract on the issuance of preference shares and the economic substance.

SECTION VIII BASIC INFORMATION ON DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT MEMBERS AND EMPLOYEES

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

i. Changes in shares held by directors, supervisors and senior management members and their remunerations during the reporting period

Name	Position	Gender	Year of birth	Tenure	Shares held at the beginning of the year	Shares held at the end of the year	Increase/ decrease of shares during the reporting period	Remuneration (in RMB10,000) (before tax) paid by the Company during the reporting period)	Equity incentives granted by the Company during the reporting period	Paid by related party of the Company (yes/no)
Li Minji	Chairman	Male	1965	14 April 2017 to the reelection of the Board of Directors	0	0	0	33.06	None	No
Li Ruge	Vice Chairman	Male	1963	28 September 2007 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Zhang Jianhua	President, Director	Male	1965	14 April 2017 to the reelection of the Board of Directors	0	0	0	40.41	None	No
Wang Hongjun	Director	Male	1969	30 November 2016 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Lin Zhiyong	Director	Male	1963	29 December 2017 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Li Jianbo	Director	Male	1965	27 February 2014 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Liu Chunhua	Director	Female	1970	27 February 2014 to the reelection of the Board of Directors	0	0	0	39.67	None	No
	Chief Audit Officer			Since 18 December 2013						
Ren Yongguang	Director	Male	1959	30 October 2010 to the reelection of the Board of Directors	0	0	0	39.67	None	No
	Vice President			Since 14 October 2010						
Zhao Junxue	Director	Male	1958	10 September 2002 to the reelection of the Board of Directors	0	0	0	212.00	None	No
	Secretary to the Board			Since 10 August 2002						
Ding Shilong	Director	Male	1963	28 September 2007 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Zou Libin	Director	Male	1967	27 February 2014 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Zhang Wei	Director	Male	1975	29 December 2017 to the reelection of the Board of Directors	0	0	0	0	None	Yes
Zeng Xiangquan	Independent Director	Male	1955	30 October 2010 to the reelection of the Board of Directors	0	0	0	20.80	None	No
Yu Changchun	Independent Director	Male	1952	30 October 2010 to the reelection of the Board of Directors	0	0	0	21.40	None	No
Xiao Wei	Independent Director	Male	1960	27 February 2014 to the reelection of the Board of Directors	0	0	0	21.40	None	No
Chen Yonghong	Independent Director	Male	1962	27 February 2014 to the reelection of the Board of Directors	0	0	0	22.00	None	No
Yang Delin	Independent Director	Male	1962	27 February 2014 to the reelection of the Board of Directors	0	0	0	22.00	None	No
Wang Huacheng	Independent Director	Male	1963	27 February 2014 to the reelection of the Board of Directors	0	0	0	21.40	None	No

Name	Position	Gender	Year of birth	Tenure	Shares held at the beginning of the year	Shares held at the end of the year	Increase/ decrease of shares during the reporting period	Remuneration (in RMB10,000) (before tax) paid by the Company during the reporting period)	Equity incentives granted by the Company during the reporting period	Paid by related party of the Company (yes/no)
Cheng Yanhong	Chairman of the Board of Supervisors	Female	1958	29 June 2004 to the reelection of the Board of Supervisors	0	0	0	39.67	None	No
Li Liangang	Supervisor	Male	1968	30 October 2010 to the reelection of the Board of Supervisors	0	0	0	7.20	None	No
Tian Ying	Supervisor	Female	1965	28 September 2007 to the reelection of the Board of Supervisors	0	0	0	6.60	None	Yes
Cheng Chen	Supervisor	Female	1975	28 September 2007 to the reelection of the Board of Supervisors	0	0	0	4.80	None	Yes
Zhu Wei	External Supervisor	Male	1965	27 February 2014 to the reelection of the Board of Supervisors	0	0	0	16.00	None	No
Lin Xin	External Supervisor	Male	1966	12 May 2015 to the reelection of the Board of Supervisors	0	0	0	17.80	None	No
Wu Changqi	External Supervisor	Male	1955	12 May 2015 to the reelection of the Board of Supervisors	0	0	0	16.00	None	No
Ma Yuanju	External Supervisor	Male	1957	12 May 2015 to the reelection of the Board of Supervisors	0	0	0	17.20	None	No
Sun Tongjun	Employee Supervisor	Male	1961	12 May 2015 to the reelection of the Board of Supervisors	0	0	0	116.60	None	No
Li Qi	Employee Supervisor	Male	1958	19 July 2001 to the reelection of the Board of Supervisors	0	0	0	116.60	None	No
Wang Liying	Employee Supervisor	Female	1962	27 February 2014 to the reelection of the Board of Supervisors	0	0	0	48.58	None	No
Li Xiang	Vice President	Male	1957	Since 28 September 2007	0	0	0	39.67	None	No
Lu Guoyi	Vice President	Male	1964	Since 20 March 2017	0	0	0	39.67	None	No
Guan Wenjie	Vice President	Male	1970	Since 24 January 2017	0	0	0	58.86	None	No
	Principal of Financial Affairs			Since 27 February 2014						
Wang Yiping	Vice President	Male	1963	Since 24 January 2017	0	0	0	43.59	None	No
Fan Dazhi	Former Director	Male	1964	28 September 2007 to 7 March 2017	0	0	0	7.35	None	No
	Former President			26 December 2008 to 5 January 2017						
Total	/	/	/	/	0	0	0	1090.00	/	/

Notes:

1. The allowance in total remuneration received by directors and supervisors from the Company during the reporting period was determined according to the *Regulations of Hua Xia Bank Co., Limited on Allowance of Directors and Supervisors*.

2. Vice Chairman Li Ruge, Director Wang Hongjun, Director Lin Zhiyong, Director Li Jianbo, Director Ding Shilong, Director Zou Libin, and Director Zhang Wei voluntarily gave up receiving allowance from the Company.

3. Remunerations of the Chairman, presidents, Chairman of the Board of Supervisors and other principals of the Company are subject to the policy of Beijing government on reform of remunerations of executives of local state-owned enterprises.

4. Pre-tax remunerations of the Chairman, Presidents, Chairman of the Board of Supervisors, Employee Supervisors and other Senior Management Members serving in the Company are under confirmation and will be disclosed thereafter.

Remuneration for company officers in 2016 approved and verified by the competent authorities:

Name	Position	Pre-tax remunerations for 2016 (RMB10,000)
Liu Chunhua	Director, CAO	65.20
Ren Yongguang	Director, Vice President	65.20
Cheng Yanhong	Chairman of the Board of Supervisors	65.20
Li Xiang	Vice President	65.20
Wu Jian	Former Chairman	78.93
Fan Dazhi	Former Director, former President	78.93

Disclosure of the rest-part remuneration for other personnel in 2016:

Name	Position	The rest part of pre-tax remunerations for 2016 (RMB10,000)
Zhao Junxue	Director, Secretary to the Board of Directors	32.86
Sun Tongjun	Employee Supervisor	94.22
Li Qi	Employee Supervisor	101.37
Wang Liying	Employee Supervisor	44.38
Guan Wenjie	Vice President, Principal of Financial Affairs	130.36

Note: Part of remunerations paid to the Secretary to the Board, Principal of Financial Affairs and Employee Supervisors during the reporting period have been disclosed in the Annual Report 2016, and the rest part of pre-tax remunerations for such personnel in 2016 is hereby disclosed. Bonus to the above-mentioned persons shall be delayed in payment. The total bonus subject to delayed payment in 2016 is RMB3,027,800 and is not paid to those individuals yet.

Remuneration for company officers in 2015 approved and verified by the competent authorities:

Name	Position	Pre-tax remunerations for 2015 (RMB10,000)
Liu Chunhua	Director, CAO	65.77
Ren Yongguang	Director, Vice President	65.77
Cheng Yanhong	Chairman of the Board of Supervisors	65.77
Li Xiang	Vice President	65.77
Wu Jian	Former Chairman	73.08
Fan Dazhi	Former Director, former President	73.08
Huang Jinlao	Former vice president	35.67
Wang Yaoting	Former vice president	9.01

ii. Positions of directors and supervisors in shareholder entities during the reporting period

<table>
<tr><th>Name</th><th>Shareholder entity</th><th>Position</th><th>Tenure</th></tr>
<tr><td>Wang Hongjun</td><td>Shougang Group Co., Ltd.</td><td>CFO</td><td>Since August 2015</td></tr>
<tr><td>Lin Zhiyong</td><td>PICC Property and Casualty Company Limited</td><td>Vice Chairman, President, Party Secretary</td><td>Since August 2016</td></tr>
<tr><td rowspan="3">Li Jianbo</td><td rowspan="3">Yunnan Hehe (Group) Co., Ltd.</td><td>Director, Member of the Party Committee, Executive Deputy General Manager</td><td>January 2015 – January 2017</td></tr>
<tr><td>Director, General Manager, Deputy Party Secretary</td><td>January 2015 – June 2017</td></tr>
<tr><td>Director, General Manager, Party Secretary</td><td>Since June 2017</td></tr>
<tr><td>Zou Libin</td><td>Shougang Group Co., Ltd.</td><td>Head of Operation and Finance Department</td><td>Since December 2015</td></tr>
</table>

iii. Main work experiences of directors, supervisors and senior management members and their positions or concurrent jobs in other entities

Li Minji, Chairman, male, was born in January 1965, and holds the title a senior economist. He majored in Finance in Renmin University of China and graduated from there with the Master's Degree in Economics. After that, he majored in Business Administration in Huazhong University of Science and Technology and graduated from there with the PhD in Management. He ever held such positions as Member of the Party Committee, Director and Executive Deputy General Manager at Beijing State-owned Assets Management Co., Ltd.; as Secretary of the Party Committee and Chairman of Beijing International Trust Co., Ltd.; and as Deputy President of China Trustee Association and Member of China Trust Protection Fund Council concurrently. He now serves as a Member of the 12th CPC Beijing Municipal Committee; and Secretary of the Party Committee and Chairman of Hua Xia Bank Co., Limited.

Li Ruge, Vice Chairman, male, was born in August 1963. He holds a master's degree and is a senior accountant. He served as Deputy Director, Director and Member of the Party Committee of Shandong Heze Power Plant, General Manager and Member of the Party Committee of Shandong Power Supply Bureau Fuel Company, Head of the Financial Department of Shandong Power Supply Bureau, Vice Chief Accountant, Chief Accountant, Deputy General Manager and Member of the Party Committee of Shandong Power Group Corporation, Vice Chief Accountant of China Guodian Corporation, Chairman of State Grid Yingda International Trust Investment Corporation, Vice Chief Accountant, Head of the Financial Department, Head of the Fund Management Center, Chief Accountant, and Member of Leading Party Group of State Grid Corporation of China. He currently serves as Chief Accountant and Member of the Party Committee of China Resources (Holdings) Co., Ltd.

Zhang Jianhua, Director and President, male, was born in March 1965. He is a PhD in Management and research fellow. The positions he ever held are listed as below: Deputy Chief and Chief of Regulatory Division for Financial Leasing Company, Regulatory Department for Non-banking Financial Institutions, PBOC; Chief of Regulatory Division III, Regulatory Department for Non-banking Financial Institutions, PBOC; Chief of Fiscal Taxation Research Division, PBOC Research Bureau; Deputy Head of PBOC Financial Stability Bureau; Head of PBOC Research Bureau; Secretary of the Party Committee and General Manager of PBOC Hangzhou Central Sub-branch and Head of State Administration of Foreign Exchange (SAFE) Zhejiang Branch concurrently; and Deputy Secretary of the Party Committee, Director and President of Beijing Rural Commercial Bank Co., Ltd. He currently serves as Chairman, President and Deputy Secretary of the Party Committee of Hua Xia Bank.

Wang Hongjun, Director, male, was born in March 1969. He holds a master's degree and is a senior accountant. He was Deputy Chief Accountant and Chief Accountant of BBMG Corporation, as well as Head of Financial Department, CFO and Director of BBMG Corporation. He currently serves as CFO of Shougang Group Co., Ltd.

Lin Zhiyong, Director, male, was born in March 1963. He is an MBA and senior economist. The positions he ever held are listed as below: Manager of Jinjiang Branch, the People's Insurance Company of China (PICC); Deputy General Manager and Member of Leading Party Group of Quanzhou Branch, PICC Property and Casualty Company Limited; Deputy General Manager, General Manager, Member of the Party Committee, Deputy Secretary of the Party Committee, and Secretary of the Party Committee of PICC Fuzhou Branch; Deputy General Manager and Member of the Party Committee of PICC Fujian Branch; Deputy General Manager, General Manager, Member of the Party Committee, and Secretary of the Party Committee of PICC Property and Casualty Company Limited; Vice President and Member of the Party Committee of PICC Property and Casualty Company Limited; and Executive Directors, Vice President and Member of the Party Committee of PICC Property and Casualty Company Limited. He now serves as Vice Chairman, President and Secretary of the Party Committee of PICC Property and Casualty Company Limited.

Li Jianbo, Director, male, was born in June 1965. He holds a bachelor's degree and is a senior economist. The positions he ever held are listed as below: Deputy Chief and Chief of Planning and Statistics Section of Yuxi Cigarette Factory, Deputy Chief Economist, Chief Economist, Director, the Board of Supervisors and Vice President of Hongta Tobacco (Group) Co., Ltd., Chairman of Yunnan Hongta Group, Director, Deputy Secretary of the Party Committee, and Executive Deputy General Manager of Yunnan Hehe (Group) Co., Ltd. He currently serves as Director, Secretary of the Party Committee, and General Manager of Yunnan Hehe (Group) Co., Ltd.

Liu Chunhua, Director, Chief Audit Officer, female, was born in January 1970. She holds a master's degree and is a senior economist. She was ever Deputy Chief (divisional level) of Planning and Treasury Division of Jiangxi International Trust and Investment Corporation; Full-time Discipline Inspector of Discipline Inspection Team of Leading Party Group (divisional level) and Deputy Director of Inspection Office, General Manager of Human Resources Department, Deputy Leader of Preparatory Group of Hua Xia Bank Fund Company, Director of Inspection Office and Deputy Secretary of the Party Discipline Committee of Hua Xia Bank. She once temporarily served as Assistant to Director of Business Innovation Supervision & Cooperation Department of CBRC. She currently serves as Director, Member of the Party Committee, Secretary of the Party Discipline Committee and Chief Audit Officer of Hua Xia Bank.

Ren Yongguang, Director, Vice President, male, was born in December 1959. He holds a bachelor's degree and is a senior economist. He used to be Deputy Head and Head of Foreign Fund Management Division, Head of Foreign Exchange Management Division, Director of Executive Office and Head of Plan Fund Division of PBOC Beijing Branch, Head of Credit Management Division of Business Management Department, Deputy Director and Member of Leading Party Group of Business Management Department of the PBOC, member of the Preparation Team for and Deputy Director General and Member of Leading Party Group of CBRC Beijing Office, Director, Vice President and Deputy Secretary of the Party Committee of Hua Xia Bank. He currently serves as Director, Vice President, Member of the Party Committee and Chairman of the Labor Union of Hua Xia Bank.

Zhao Junxue, Director, Secretary to the Board, male, was born in April 1958. He holds a master's degree and is a senior economist. He served as Assistant to General Manager of South Branch of China National Packaging Corporation, Deputy General Manager and General Manager of Yuehai Finance Holding Co., Ltd., and General Manager and Secretary of Leading Party Group of Shenzhen Branch of Hua Xia Bank. He currently serves as Director and Secretary to the Board of Directors of Hua Xia Bank.

Ding Shilong, male, was born in July 1963. He is a PhD in Management and a senior accountant. He served as Deputy Chief and Chief of the General Financial Section of Henan Power Industry Bureau, Deputy Head of the Financial Division, Assistant Consultant (holding a temporary leading post) of Electric Regulation Division and State-owned Asset Supervision Division of the Electric Power Department and Associate Chief Accountant and Head of the Financial Division of Henan Power Company (Bureau). He later became Chief Accountant of Henan Power Company, Chairman of Henan Kaixiang Electric Power Industrial Holding Co., Ltd., Deputy Head of the Financial Asset Management Department of State Grid Corporation of China, Deputy General Manager and Member of Leading Party Group of SGCC Asset Management Co., Ltd., Deputy General Manager and Member of Leading Party Group of State Grid Yingda International Holdings Corporation, Ltd., Member of Leading Party Group, Deputy General Manager and Chief Accountant of State Grid Jibei Electric Power Company Limited, and Secretary General of Enterprise Management Association of SGCC. He now serves as Chairman and Secretary of Leading Party Group of Yingda Taihe Life Insurance Co., Ltd. (with his qualifications subject to regulatory approval).

Zou Libin, Director, male, was born in September 1967. He holds a master's degree and is a senior accountant. He was ever a clerk of Malaysia Division of International Trade Department, JV Division of overseas Headquarters, JV Division of International Trade Department and Foreign Economic Division of Economic and Trade Department of Shougang, a professional of JV Management Division of Industrial Development Department of Shougang. Then he served as Assistant to Chief and Deputy Chief of Listed Company Management Division of Capital Operation Department of Shougang Corporation, Deputy Division Chief of Bodi Investment Co., Ltd., Deputy Chief of Treasury Division of Budget and Finance Department of Shougang Xingang Co., Ltd., and Assistant to Head and Head of Capital Operation Department, Head of Investment Management Department, and Head of Planning and Finance Department of Shougang Corporation. He currently serves as Head of Operation and Finance Department of Shougang Group Co., Ltd.

Zhang Wei, Director, male, was born in April 1975. He is a PhD and an economist. The positions he ever held are listed as below: Senior Manager of Division of Comprehensive Affairs, General Office, PICC Investment Holing Co., Ltd.; Senior Manager of Secretariat, General Office (Party Committee Office), People's Insurance Company of China; General Manager Assistant to the Board of Secretariat (Office of the Board of Supervisors) and Senior Manager of Secretariat to the Executive Office (Party Committee Office), People's Insurance Company of China; Deputy General Manager to the Board of Secretariat (Office of the Board of Supervisors) and Senior Manager of Secretariat to the General Office (Party Committee Office), People's Insurance Company of China; and Deputy General Manager of the Board of Secretariat (Office of the Board of Supervisors), People's Insurance Company of China. He now serves as General Manager of Department of Investment and Financial Management, People's Insurance Company of China.

Zeng Xiangquan, Independent Director, male, was born in November 1955. He is a PhD in Economics, professor and tutor to PhD students. He was the Dean of the School of Labor and Human Resources of Renmin University of China. Now, he is a professor of the School of Labor and Human Resources of Renmin University of China.

Yu Changchun, Independent Director, male, was born in February 1952. He is a PhD and professor. He used to be associate professor, dean of the teaching-research section and Deputy Dean of the Accounting Department of Jilin Finance and Trade College; Dean, professor and MA student adviser of the Accounting Department of Changchun Taxation College; Director of Teaching and Research Center, Professor and tutor to PhD students of Beijing National Accounting Institute. Now, he is a professor of Beijing National Accounting Institute (retired).

Xiao Wei, Independent Director, male, was born in December 1960. He holds a master's degree and once served as Director of Hainan Office of China Legal Affairs Center. He established Jun He Law Offices in Beijing in 1989 and is the Offices' Director and Partner now.

Chen Yonghong, Independent Director, male, was born in December 1962. He holds a bachelor's degree and is a Chinese CPA and senior accountant. He is a leading talent in China's accounting sector. He was ever Senior Staff Member and Principal Staff Member of Investment Audit Division of Hunan Audit Office; Deputy Director and Director of Hunan Auditors Office, Chairman and Chief Accountant of Baker Tilly China, and Principal Partner and Chief Accountant of Baker Tilly China Certified Public Accountants. Now, he is Partner of Baker Tilly China Certified Public Accountants and Chairman of Tianzhi Engineering Project Management Co., Ltd.

Yang Delin, Independent Director, male, was born in April 1962. He is a PhD and professor. He once taught Physics at No. 2 Middle School of Xiangfan and Hubei Provincial Supply and Marketing Institute, was an engineer of (Planning Division) and Assistant Researchers of Mathematics Department Office of Department Co-office of Wuhan Institute of Physics, Chinese Academy of Sciences; held a temporary post of Deputy Director/Member of Party Leading Group of Lanzhou Economic Commission; and Lecturer and Associate Professor of School of Economics and Management of Tsinghua University. Now, he is a professor of School of Economics and Management of Tsinghua University.

Wang Huacheng, Independent Director, male, was born in January 1963. He is a PhD and professor. He was once Teaching Assistant, Lecturer, Associate Professor and Deputy Director of Accounting Department and Vice Dean of School of Business of Renmin University of China. Now, he is a professor and tutor to PhD students at Division of Accounting & Finance, School of Business of Renmin University of China.

Cheng Yanhong, Chairperson of the Board of Supervisors, female, was born in February 1958. She holds a bachelor's degree and is a senior accountant. She served as Deputy Head of the General Planning Division, Deputy Head and Head of the Debt Division, Deputy Director General and Member of Leading Party Group of Beijing Municipal Bureau of Finance, Secretary of the Party Committee and General Manager of Beijing Securities Co., Ltd., Deputy Secretary and Secretary of the Beijing Finance Working Committee, Head of the Finance Office of Beijing Municipal Government, Chairman of the Board of Supervisors, Deputy Secretary of the Party Committee and Secretary of the Party Discipline Committee of Hua Xia Bank. She currently serves as Chairman of the Board of Supervisors and Deputy Secretary of the Party Committee of Hua Xia Bank.

Li Liangang, Supervisor, male, was born in May 1968. He holds a bachelor's degree and is a senior economist. He used to be Deputy General Manager of the Finance Department of Shandong Office, and General Manager of the Shandong Securities Operations Department of China New Technology Venture Capital Company, Head of the Corporate Banking Division of Jinan Branch of Hua Xia Bank Co., Limited, Deputy Director of the Board of Directors' Office, Director of the Board of Directors' Office and Director of the President's Office, Director, Secretary of the Board of Directors and Chief Financial Officer of Runhua Group.

Tian Ying, Supervisor, female, was born in April 1965. She holds a master's degree and is a senior accountant. She previously taught at Beijing Finance College and was Manager of the Fund and Finance Department, Chief Accountant and Deputy General Manager of Beijing Sanjili Energy Co., Ltd. and Chairman of Huaxing Power Co., Ltd. Now, she is Chairman of Huaxing Power Co., Ltd.

Cheng Chen, Supervisor, female, was born in March 1975. She holds an EMBA degree. She previously served as Deputy General Manager of Shanghai Giant Biotech Co., Ltd. Now, she is Vice General Manager of Giant Investment Co., Ltd. and Chairman of Green Giant Energy Co., Ltd.

Zhu Wei, External Supervisor, male, was born in August 1965. He holds a master's degree and is a senior economist and Chinese CPA. He was ever Deputy Division Chief of Industrial Transportation Department and Economic and Trade Department of the Ministry of Finance, Director and Deputy General Manager of Zhong Sheng Environmental Protection Technology Development and Investment Co., Ltd. Now, he is Chief Partner of Jonten Certified Public Accountants LLP.

Lin Xin, External Supervisor, male, was born in October 1966. He is a PhD and lawyer. He previously was a lawyer at China Legal Affairs Center. Now, he is Partner of Beijing Zhongming Law Firm.

Wu Changqi, External Supervisor, male, was born in June 1955. He holds a PhD degree and is a professor. He was Director of the Center of Executive Master of Business Administration (EMBA) Degree Program and Vice Dean of the Guanghua School of Management of Peking University and a part-time professor of HKUST Business School. Now, he is a professor teaching strategic management at the Guanghua School of Management of Peking University, Director of National Hi-tech Industrial Development Zone Development Strategy Research Institute of Peking University, Director of Guanghua Leadership Research Center of Peking University and Executive Vice Director of International Operation & Management Research Institute of Peking University.

Ma Yuanju, External Supervisor, male, was born in March 1957. He is a PhD and professor. He taught accounting and did scientific research work at Zhuhai Radio & TV University. Now, he is a professor at the Accounting School of Capital University of Economics and Business.

Sun Tongjun, Employee Supervisor, male, was born in November 1961. He holds a master's degree and is a senior economist. He served as Head and Party Committee Secretary of Agricultural Bank of China Penglai Sub-branch and Vice Head and Party Committee Member of Agricultural Bank of China Yantai Branch. When he joined Hua Xia Bank, he was successively Head and Party Committee Secretary of Yantai Sub-branch, Head and Party Committee Secretary of Shenyang Branch and Head and Party Committee Secretary of Ji'nan Branch. Now, he is Employee Supervisor, Internal Control & Compliance Director and General Manager of Internal Control & Compliance Department of Hua Xia Bank.

Li Qi, Employee Supervisor, male, was born in August 1958. He holds a bachelor's degree and is a senior economist. He once was a teacher of the Law Department of Shandong University, Deputy General Manager of Rural Credit Cooperative of China in Shandong and Deputy General Manager of Shandong Yingtai Group Corporation. He took several positions in Hua Xia Bank, including Head of the Audit and Compliance Department of Ji'nan Branch, Member of the Discipline Inspection Committee, General Manager of Legal Affairs Department and Special Assets Resolution Department, Secretary of the Party Committee and General Manager of Chongqing Branch, Employee Supervisor, General Manager of Audit Department and Member of the Discipline Inspection Committee, as well as Employee Supervisor, General Manager Candidate of Audit Department and Member of the Discipline Inspection Committee of Hua Xia Bank. He currently serves as Employee Supervisor and Member of the Discipline Inspection Committee of Hua Xia Bank.

Wang Liying, Employee Supervisor, female, was born in May 1962. She holds a bachelor's degree and is a senior accountant. She was ever Deputy Director of Taiyuan Audit Office of Shanxi Branch of China Construction Bank, Chief of Budget and Finance Division & Director of Bills Center of Taiyuan Sub-branch of Hua Xia Bank, Vice President and Member of Party Committee of Taiyuan Branch of Hua Xia Bank, Vice President and Member of Party Committee of Tianjin Branch of Hua Xia Bank, Deputy General Manager and General Manager of Compliance Department of Hua Xia Bank, as well as Employee Supervisor, Director of Inspection Office and Deputy Secretary of the Party Discipline Committee of Hua Xia Bank. She currently serves as Employee Supervisor of Hua Xia Bank.

Li Xiang, Vice President, male, was born in December 1957. He holds a master's degree and is a senior economist. He served as Secretary of deputy division level of General Office of Jiangsu Provincial Government and took several positions in Hua Xia Bank, including Head of the Banking Department, Deputy General Manager and Member of the Leading Party Group, General Manager and Secretary of the Leading Party Group (the Party Committee) of Nanjing Branch, and Assistant to President (concurrently General Manager of the Corporate Banking Department) of Hua Xia Bank. He currently serves as Vice President and Member of the Party Committee of Hua Xia Bank.

Lu Guoyi, Vice President, male, was born in January 1964. He is a PhD and a senior economist. The Positions he ever held are listed as below: Deputy Chief of Division of Legal Affairs, Bureau of Administrative Law; Deputy Chief of Credit Division I, Wuhan Branch; Deputy Chief of Contract Management Division, Bureau of Legal Affairs; Chief of Contract Management Division and Contract Management Division I, Bureau of Legal Affairs; Chief of Division of Comprehensive Affairs, Bureau of Legal Affairs; and Deputy Head of Bureau of Legal Affairs, China Development Bank; as well as Deputy Mayor of Fangshan District, Beijing. Now he serves as Vice President of Hua Xia Bank, Member of the 13th CPPCC Municipal Standing Committee, Member of Zhigong Party Central Committee, and Deputy Director of Zhigong Party Beijing Municipal Committee.

Guan Wenjie, Vice President and Principal of Financial Affairs, male, was born in October 1970. He holds a master's degree and is a senior accountant. He was once Deputy Chief (in charge of specific work) and Chief of Budget & Finance Division of Qingdao Sub-branch of Hua Xia Bank, General Manager of Budget & Finance Department of Qingdao Branch of Hua Xia Bank, Vice General Manager and Member of Party Committee of Qingdao Branch of Hua Xia Bank, General Manager and Secretary of Party Committee of Qingdao Branch of Hua Xia Bank, General Manager of Accounting Department of Hua Xia Bank, Principal of Financial Affairs and General Manager of Budget and Finance Department of Hua Xia Bank, Principal of Financial Affairs, CFO, General Manager of Budget and Finance Department and General Manager of Financial Markets Department of Hua Xia Bank. Now, he is Vice President, Principal of Financial Affairs, CFO, General Manager of Budget and Finance Department of Hua Xia Bank.

Wang Yiping, Vice President, male, was born in June 1963. He holds a master's degree and is a senior economist. The positions he ever held are listed as below: Secretary to Minister (divisional level), Secretariat, General Office, Ministry of Coal Industry; Secretary (divisional level) of Secretariat, General Office, the State Bureau of Coal Industry; Assistant President of ChinaCoal Trust Investment Co., Ltd.; Deputy General Manager of Corporate Financing Department and General Manager of Financial Interbank Department of Hua Xia Bank; and General Manager and Secretary of the Party Committee of Taiyuan Branch, Hua Xia Bank. He currently serves as Vice President of Hua Xia Bank.

Name	Position or concurrent position in other entities excluding shareholder entities
Li Minji	None
Li Ruge	Chief Accountant and Member of the Party Committee of China Resources (Holdings) Co., Ltd.
Zhang Jianhua	None
Wang Hongjun	Chairman of Shougang Group Finance Co., Ltd.
Lin Zhiyong	None
Li Jianbo	Chairman of Hongta Securities Co., Ltd.; Chairman of Hongta Innovation Investment Co., Ltd.
Liu Chunhua	None
Ren Yongguang	Chairman of Huaxia Financial Leasing Co., Ltd.
Zhao Junxue	None
Ding Shilong	Chairman and Secretary of Leading Party Group of Yingda Taihe Life Insurance Co., Ltd. (with his qualifications subject to regulatory approval)
Zou Libin	Director of Beijing Jingxi Venture Capital Fund Management Co., Ltd., Director of Beijing Shougang Construction Investment Co., Ltd., Director of Shougang Shuicheng Iron & Steel (Group) Co., Ltd., Supervisor of Beijing Shougang Fund Management Co., Ltd., Supervisor of China Bond Insurance Corporation, Director of Shougang Group Finance Co., Ltd.
Zhang Wei	General Manager of Department of Investment and Financial Management, People's Insurance Company of China
Zeng Xiangquan	Professor of the School of Labor and Human Resources, Renmin University of China; Independent Director of China Film Group Corporation
Yu Changchun	Professor of Beijing National Accounting Institute (retired); Independent Director of Shandong Haihua Co., Ltd.; Executive Member of Education Branch, Accounting Society of China
Xiao Wei	Director and Partner of Beijing Jun He Law Offices; Deputy to the 15th Beijing Municipal People's Congress; Legal Consultant to the State-owned Assets Supervision and Administration Commission of the State Council
Chen Yonghong	Partner of Baker Tilly China Certified Public Accountants, Chairman of Tianzhi Engineering Project Management Co., Ltd., Independent Director of China United Network Communications Limited, Independent Director of Inner Mongolia Jinyu Bio-Technology Co., Ltd.
Yang Delin	Professor of Tsinghua University School of Economics and Management, Independent Director of Changjiang Publishing & Media Co., Ltd., Secretary General of Chinese Society of Technology Economics, Executive Vice Chairman of Chinese Institute of Business Administration
Wang Huacheng	Professor of School of Business of Renmin University of China

Name	Position or concurrent position in other entities excluding shareholder entities
Cheng Yanhong	None
Li Liangang	Director of Shandong Juya Environmental Protection Co., Ltd.
Tian Ying	Chairman of Huachen Energy Co., Ltd., Vice Chairman of Zhangjiagang Shazhou Power Co., Ltd., Director of Zhangjiagang Huaxing Power Co., Ltd., Chairman of Zhoukou Longda Power Generation Co., Ltd.
Cheng Chen	Vice General Manager of Giant Investment Co., Ltd.; Chairman of Green Giant Energy Co., Ltd.; Director of Guangxi Beibu Gulf Bank Co., Ltd.; Supervisor of Linzhi Minsheng Village Bank
Zhu Wei	Chief Partner of Jonten Certified Public Accountants
Lin Xin	Partner of Beijing Zhongming Law Firm
Wu Changqi	Professor teaching strategic management at the Guanghua School of Management of Peking University, Director of National Hi-tech Industrial Development Zone Development Strategy Research Institute of Peking University, Director of Guanghua Leadership Research Center of Peking University, Executive Vice Director of International Operation & Management Research Institute of Peking University, Non-executive Director of Qingdao Haier Co., Ltd., Independent Director of Beijing Electronics Zone Investment and Development Co., Ltd., Independent Director of Yijiahe Technology Co., Ltd., Independent Director of Aixin Life Insurance Co., Ltd., and Independent Non-executive Director of Beijing Media Co., Ltd.
Ma Yuanju	Professor at the Accounting School of Capital University of Economics and Business, Independent Director of Sound Global Limited, Independent Director of Jinhe Biotechnology Co., Ltd.
Sun Tongjun	None
Li Qi	None
Wang Liying	None
Li Xiang	None
Lu Guoyi	None
Guan Wenjie	Director of Huaxia Financial Leasing Co., Ltd.
Wang Yiping	None

iv. Remunerations of directors, supervisors and senior management members during the reporting period

1. Decision-making procedures for remunerations of directors, supervisors and senior management members

The Remuneration and Assessment Committee of the Board of Directors examines annual allowances of directors and supervisors in accordance with the *Regulations of Hua Xia Bank Co., Limited* on Allowance of Directors and Supervisors and in combination with the annual duty performance of directors and supervisors. Relevant announcement is published after review and approval of the Board of Directors.

The Remuneration and Assessment Committee of the Board of Directors studies and proposes bonus allocation plan for senior management members in accordance with the *Administrative Measures for Remunerations of Head Office-level Senior Management of Hua Xia Bank* and the *Working Process of Remunerations and Annual Appraisals of Head Office-level Senior Management of Hua Xia Bank* and in combination with the completion of the Company's major business indicators, the annual appraisal results of senior management and the upper-level department's policy on remuneration management. Annual appraisal results and remunerations of senior management members are announced after review and approval of the Board of Directors. In 2017, remunerations of senior management members of the Company that fall into the remuneration management scope of officers of SOEs governed by Beijing Municipal Government were managed in accordance with the Beijing Municipal Government's policy on remuneration reform of officers of municipal SOEs.

The Remuneration and Assessment Committee of the Board of Directors has examined remuneration data of directors, supervisors and senior management members to be disclosed in the Annual Report 2017 of the Company. In the opinion of the committee, the remunerations of directors, supervisors and senior management members to be disclosed in the Annual Report 2017 of the Company comply with relevant assessment system and remuneration management policy of the Company, and are paid in overall consideration of the prevailing economic conditions, control policies of China and Beijing as well as actual operation of the Company and its peers, and the disclosure meets requirements of relevant laws and regulations.

2. Basis for determining remunerations of directors, supervisors and senior management members

Remunerations of directors and supervisors are determined on the basis of the *Regulations of Hua Xia Bank Co., Limited on Allowance of Directors and Supervisors* and remunerations of senior management members are determined on the basis of the *Administrative Measures for Remunerations of Head Office-level Senior Management of Hua Xia Bank* and the policy of Beijing Municipal Government on the reform of remunerations of officers of municipal SOEs.

3. Remunerations payable to directors, supervisors and senior management members

Please refer to the "Changes in shares held by directors, supervisors and senior management members and their remunerations" in this Section for details.

4. Total remunerations actually paid to directors, supervisors and senior management members at the end of the reporting period

At the end of the reporting period, RMB10.90 million (before tax) was actually paid to all of the directors, supervisors and senior management members.

v. Changes in directors, supervisors and senior management members of the Company

On 30 August 2016, the Seventh Board of Directors of the Company reviewed and approved the *Proposal on Engaging Vice Presidents* at its 21st Meeting, according to which Mr. Guan Wenjie and Mr. Wang Yiping were engaged as vice presidents of the Company. The qualification of Mr. Guan and Mr. Wang for serving as vice presidents was approved by CBRC on 24 January 2017.

On 28 October 2016, the Seventh Board of Directors of the Company reviewed and approved the *Proposal on Engaging Vice President* at its 22nd Meeting, according to which Mr. Lu Guoyi was engaged as vice president of the Company. The qualification of Mr. Lu for serving as vice president was approved by CBRC on 20 March 2017.

On 5 January 2017, the Board of Directors of the Company received a written resignation report from Mr. Fan Dazhi. Mr. Fan Dazhi resigned from the post of president of the Company due to work engagement.

On 18 January 2017, the Seventh Board of Directors of the Company reviewed and approved the *Proposal on Engaging President* at its 26th Meeting, according to which Mr. Zhang Jianhua was engaged as president of the Company. The qualification of Mr. Zhang for serving as president was approved by CBRC on 14 April 2017.

On 7 March 2017, the Board of Directors of the Company received a written resignation report from Mr. Fan Dazhi. Mr. Fan Dazhi resigned from the posts of the Company's chairman, director and members of relevant committees of the Board of Directors due to work engagement.

On 29 March 2017, the First Extraordinary General Meeting of the Company in 2017 reviewed and approved the *Proposal on Electing Directors of the Bank*, according to which Mr. Lin Zhiyong, Mr. Zhang Wei, Mr. Li Minji and Mr. Zhang Jianhua were elected into the Board of Directors of the Company. The qualifications of Mr. Li Minji and Mr. Zhang Jianhua for serving in the Board of Directors were approved by CBRC on 14 April 2017. The qualifications of Mr. Lin Zhiyong and Mr. Zhang Wei for serving in the Board of Directors were approved by CBRC on 29 December 2017.

On 29 March 2017, the Seventh Board of Directors of the Company reviewed and approved the *Proposal on Electing Chairman* at its 29th meeting, and Mr. Li Minji was elected Chairman of the Bank. The qualification of Mr. Li to chair the Board of Directors was approved by CBRC on 14 April 2017.

On 12 June 2017, the Board of Directors of the Company received a written resignation report from Ms. Wang Liying. Ms. Wang Liying retired from the posts of the Company's employee supervisor and members of relevant committees of the Board of Supervisors as she reached the retiring age. Since the resignation of Ms. Wang Liying caused the number of employee supervisors in the Board of Supervisors of the Company to become less than the quorum, she would continue to carry out the functions and powers of an employee supervisor in accordance with laws and regulations and the Articles of Association before a new employee supervisor was elected by the employees' congress.

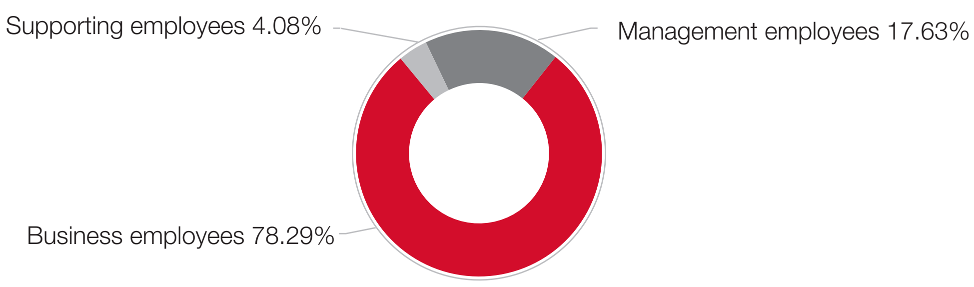
vi. Penalties imposed on directors, supervisors and senior management members of the Company by securities regulatory authority in the past three years

Not applicable.

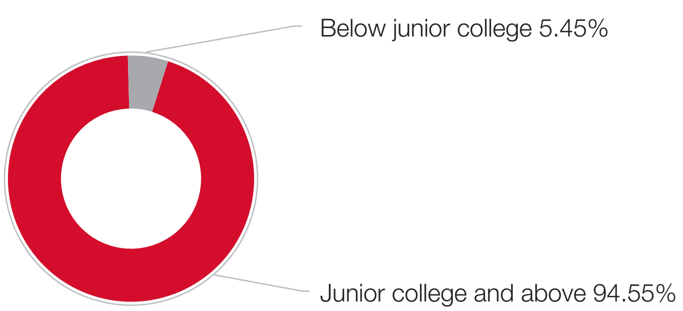
II. EMPLOYEES

At the end of the reporting period, the Group had 42,644 service employees, including 42,358 ones working in the Company and 286 ones working in the major subsidiaries. The Group paid for 559 retired employees.

i. The Company's employees by professional field



ii. The Company's employees by educational background



iii. Remuneration policy and training plan of the Company

During the reporting period, according to the bank-wide development strategy and operation targets, the Company constantly improved performance management system, took application of management accounting as an opportunity, further focused on capital constraints and operational benefits, stepped up asset quality and risk & compliance management, promoted operational transformation and structural adjustment, and enhanced incentive and restrictive role of remuneration.

The Company actively promoted the building of a learning organization, continued to improve the tiered and specialized talent cultivation system, constantly created a smart, efficient mobile learning platform, enhanced the quality and efficiency of trainings, and sped up the knowledge upgrade, in a bid to help employees enhance their comprehensive capabilities.

SECTION IX CORPORATE GOVERNANCE

I. CORPORATE GOVERNANCE PRACTICE

The Company earnestly implements regulatory requirements on corporate governance, continuously improves corporate governance framework, brings more discipline to the operation of the Shareholders' General Meeting, the Board of Directors, the Board of Supervisors and the Senior Management in accordance with the *Company Law*, the *Commercial Bank Law*, the *Securities Law*, the *Governance Standards of Listed Companies*, the *Guidelines on Corporate Governance of Commercial Banks*, the *Guidelines on the Work of the Board of Supervisors of Commercial Banks* and other relevant laws and regulations. The core objective is to maximize shareholders' long-term value on the premise of respecting and protecting the interests of depositors. The actual condition of corporate governance has no material discrepancies with the normative documents on governance of listed companies released by CSRC.

During the reporting period, the Company drafted the plan on revisions to the *Articles of Association of Hua Xia Bank Co., Limited*, submitted the plan to the Board of Directors and the Shareholders' General Meeting for deliberation and approval, and included the overall requirements for Party building work in the Articles of Association, as per the guiding principles set forth in the related documents of the central government and Beijing municipal government. Now, it is further refining the plan and going through the related approval procedures in line with the latest requirements of the regulatory authorities. Besides, the Board of Directors of the Company revised the *Rules of Procedures for the Board of Directors of Hua Xia Bank Co., Ltd.* accordingly and devised the *Implementation Rules of Hua Xia Bank on "Three Majors and One Large-Amount" Decision-making Mechanism*. To further perform the responsibilities relating consumer protection, the Board of Directors renamed the Strategy Committee into the Strategy Management and Consumer Protection Committee. In response to changes in directors, the Board of Directors timely studied and adjusted the composition of the special committees concerned.

II. BRIEFING OF THE SHAREHOLDERS' GENERAL MEETING

During the reporting period, the Company called and held two Shareholders' General Meetings and adopted 18 resolutions in strict accordance with the *Rules on the Shareholders' General Meetings of Listed Companies*, the Articles of Association and the procedural rules on the Shareholders' General Meeting. The Company established and improved effective channels of communication with shareholders, increased representation of public shareholders at the Shareholders' General Meetings through online voting and ensured equality of shareholders and their full exercise of rights, including the rights to be informed of, participate in and vote on significant matters of the Company.

General Meeting	Date	Website designated for publishing resolutions	Disclosure date
First Extraordinary General Meeting for 2017	29 March 2017	http://www.sse.com.cn	30 March 2017
Annual General Meeting for 2016 of Hua Xia Bank Co., Limited	24 May 2017	http://www.sse.com.cn	25 May 2017

III. DUTY PERFORMANCE OF THE DIRECTORS

i. Attendance of directors at Board meetings and Shareholders' General Meetings

Director	Independent Director (Yes/no)	Attendance at Board Meeting						Attendance at Shareholders' General Meetings
		Board meetings to be attended this year	Meetings attended in person	Meetings attended by correspondence	Meetings attended by proxy	Absence	Absent from two consecutive meetings (Yes/no)	Shareholders' General Meetings attended
Li Minji	No	5	5	2	0	0	No	1
Li Ruge	No	9	6	3	3	0	No	1
Zhang Jianhua	No	5	5	2	0	0	No	1
Wang Hongjun	No	9	7	3	2	0	No	0
Li Jianbo	No	9	7	3	2	0	No	1
Liu Chunhua	No	9	7	3	2	0	No	1
Ren Yongguang	No	9	8	3	1	0	No	2
Zhao Junxue	No	9	9	3	0	0	No	2
Ding Shilong	No	9	9	3	0	0	No	1
Zou Libin	No	9	8	3	1	0	No	0
Zeng Xiangquan	Yes	9	7	3	2	0	No	1
Yu Changchun	Yes	9	6	3	3	0	No	0
Xiao Wei	Yes	9	7	3	2	0	No	0
Chen Yonghong	Yes	9	8	3	1	0	No	1
Yang Delin	Yes	9	8	3	1	0	No	2
Wang Huacheng	Yes	9	8	3	1	0	No	1
Fan Dazhi	No	1	1	0	0	0	No	/

Number of Board meetings held this year	9
Of which: Number of onsite meetings	6
Number of meetings held by correspondence	3

ii. Dissents of Independent Directors on relevant issues of the Company

During the reporting period, Independent Directors did not raise any dissents on relevant issues of the Company.

During the reporting period, there were six Independent Directors on the Board of Directors of the Company, accounting for over one third of its members. They earnestly attended meetings and reviewed proposals, performed the role of conveners for the Related Party Transactions Control Committee, the Nomination Committee, the Remuneration and Assessment Committee and the Audit Committee and gave professional opinions on strategic management, comprehensive risk management, capital management, related party transactions management, profit distribution, internal control improvement, senior management engagement and performance of duties, among other corporate governance and operational management activities, on an independent basis in the interest of depositors and minority shareholders pursuant to laws, regulations and the Articles of Association.

IV. IMPORTANT OPINIONS AND SUGGESTIONS PROPOSED BY SPECIAL COMMITTEES OF THE BOARD OF DIRECTORS WHEN PERFORMING THEIR DUTIES DURING THE REPORTING PERIOD

During the reporting period, all special committees of the Board of Directors operated in a well-disciplined manner and diligently performed their duties.

The Strategy Management and Consumer Protection Committee held three meetings and reviewed the proposals relating to the Committee's annual work plan, the 2017-2020 development program, the report on implementation of 2013-2016 development program, the report on implementation of green credit, the report on consumer protection in 2016 and relevant work proposals for 2017, the proposal on committee name change, the report on internal CAR assessment procedures in 2016, and the development of the *Administrative Measures for Verification of Advanced Approach to Capital Measurement of Hua Xia Bank*.

The Risk and Compliance Management Committee held three meetings and reviewed the proposals relating to the Committee's annual work plan, the report on risk management in 2016, the annual risk management strategy, the risk appetite of Hua Xia Bank Co., Limited, the report on market risk management in 1H 2017, the report on liquidity risk management in 1H 2017, the report on credit risk management in 1H 2017, and the revision of the *Administrative Measures of Hua Xia Bank on Bad Debt Write-Off*.

The Related Party Transactions Control Committee held one meeting and reviewed the proposals relating to the Committee's annual work plan, the report on implementation of related party transactions management system and related party transactions, as well as credit lines extended to Shougang Corporation and its related enterprises, PICC Property and Casualty Company Limited and its related enterprises, State Grid Yingda International Holdings Corporation, Ltd. and its related enterprises, Yunnan Hehe (Group) Co., Ltd. and its related enterprises, Hongta Group and its related enterprises, and Huaxia Financial Leasing Co., Ltd. through related party transactions.

The Nomination Committee held two meetings and reviewed the proposal on qualifications of chairman, presidents and director candidates of the Company.

The Remuneration and Assessment Committee held one meeting and reviewed the proposals relating to the Committee's annual work plan, the 2016 assessment results of senior management members, the bonus pool for Head Office-level senior management members not in the charge of Beijing municipality in 2016, the plan on bonus distribution to Head Office-level senior management members not in the charge of Beijing municipality in 2016, the plan on bonus distribution to Head Office-level senior management members in the charge of Beijing municipality in 2016, the return of risk security deposits to Head Office-level senior management members in 2017, and the disclosure of remunerations of directors, supervisors and senior management members in the 2016 Annual Report. The Committee appraised the duty performance of senior management members in 2016.

The Audit Committee held six meetings and reviewed the proposals relating to the Committee's annual work plan, the report on duty performance of the Committee in 2016, the Company's regular reports, the final accounts report in 2016, the profit distribution plan in 2016, the plan on strengthening capital base with capital reserve in 2016, the budget report in 2017, the 2016 auditor's report under International Accounting Standards, the engagement and remuneration of accounting firm in 2017, the special report on retention and use of money raised through non-public issuance of preference shares in 2016, the internal audit work report in 2016, the internal audit work plan in 2017, the 2016 internal control assessment report, the auditor's report on internal control in 2016, the internal audit work report in 1H 2017, the internal control assessment plan for 2017, the amendments to implementation rules on annual assessment of employees in the Audit Department, the 2017 performance contract of the Audit Department, the distribution of dividends for preference shares in 2016, and the distribution of dividends for preference shares in 2017.

V. EXPLANATION ON THE DETECTION OF THE COMPANY'S RISK EXPOSURES BY THE BOARD OF SUPERVISORS

During the reporting period, the Board of Supervisors supervised duty performance of the Company's directors and senior management members, financial decisions and their implementation, internal control construction and risk management, having no dissents on those matters under supervision.

During the reporting period, the Board of Supervisors held four meetings and adopted 17 resolutions covering the Company's regular reports, financial statements, special inspection reports, internal control assessment report and social responsibility report in accordance with the Articles of Association of the Company and the procedural rules on the Board of Supervisors. It launched six inspections and surveys, including supervision on and inspection of duty performance by directors and senior management members, field visit to Beijing Branch for inspection on its lobby service management, survey into the services in support of the coordinated development of the Beijing-Tianjin-Hebei region, inspection of the Company's non-performing assets management, survey into the operational and management practice of tier-2 branches in the charge of Hangzhou Branch and Ji'nan Branch, and deliberation of the *Report on the Development and Implementation of Remuneration Management Policies of the Bank*. All Supervisors diligently worked, adequately attended meetings as required, performed supervisory functions pursuant to laws, regulations and the Articles of Association, and organized and participated in special inspections with due diligence. External Supervisors adequately attended meetings, earnestly reviewed proposals and gave independent opinions with due diligence pursuant to laws, regulations and the Articles of Association. They played the role of convener for special committees and organized and participated in special inspections and investigations of the Board of Supervisors.

VI. EXPLANATION ON INABILITY TO ENSURE INDEPENDENCE OR INDEPENDENT OPERATION IN THE ASPECTS OF BUSINESS, PERSONNEL, ASSET, INSTITUTION AND FINANCE BETWEEN THE COMPANY AND ITS CONTROLLING SHAREHOLDER

Not applicable.

VII. ASSESSMENT MECHANISM WITH RESPECT TO THE SENIOR MANAGEMENT MEMBERS AS WELL AS ESTABLISHMENT AND IMPLEMENTATION OF THE INCENTIVE MECHANISM DURING THE REPORTING PERIOD

The Company engages senior management members through external recruitment and internal selection. Senior management members are appointed by the Board of Directors and their qualifications shall be submitted to CBRC for review. Senior management members are overseen in respect of any violation of laws, regulations or the Articles of Association or any misconduct against corporate interests. In addition to an order of correction issued, such violations and misconducts will be reported to the Shareholders' General Meeting or competent authorities of the State where necessary.

During the reporting period, the Remuneration and Assessment Committee of the Board of Directors assessed duty performance of senior management members in 2016 in accordance with the *Measures for Annual Assessment of Head Office-level Senior Management Members of Hua Xia Bank*, including fulfillment of main annual operating indicators of the Company determined by the Board of Directors, performance indicators of senior management members by business/field in charge and directors' appraisals. Senior management members were assessed on the following principles: ensuring realization of planned objectives under the guidance of the development program; combining quantitative and qualitative indicators based on key performance indicators; representing duty matching, deferred payment and risk deduction, considering both team and personal performance of the Senior Management. The Remuneration and Assessment Committee proposed bonus allocation plan for senior management members in accordance with the *Administrative Measures for Remunerations of Head Office-level Senior Management Members of Hua Xia Bank* and the Beijing Municipal Government's policy on remuneration reform of officers of municipal SOEs. Besides, the Board of Supervisors and its Supervision Committee assessed performance of duties by senior management members in compliance with laws and regulations in 2016. Assessment results of the Remuneration and Assessment Committee and appraisals of the Board of Supervisors constitute an important basis for performance assessment of senior management members and incentive and restrictive decisions related to senior management members.

VIII. INFORMATION DISCLOSURE AND INVESTOR RELATIONS MANAGEMENT

The Company regulates day-to-day information disclosures pursuant to the State's laws and regulations, regulatory provisions and the Company's policies to effectively protect investors' right to know, ensure authenticity, accuracy, completeness and timeliness of the information disclosed and safeguard investors' interests. During the reporting period, the Company prepared and disclosed four regular reports and 35 interim reports and informed the investors of such significant information as financial data, related party transactions and profit distribution plan on a timely basis.

The Company further deepened investor relations management. It maintained routine contacts and communications with investors via telephone, fax and email, and held meetings with investors and analysts as well as online explanatory session on cash dividend distribution to inform them of the connotation and values of the Company so that the market could have a further understanding of the Company and the investors would enhance their recognition of the Company's value. Besides, the Company diversified the approaches of communication with investors and fully availed of SSE E Platform to have online exchanges with investors, thereby promoting a benign interaction with the capital market. With respect to investor education, the Company released the consumer protection cases on its official website and WeChat official account, with a view to helping investors build up the awareness of following rules and guarding against risks, and protecting legitimate rights and interests of investors, especially those in medium and small sizes.

IX. REPORT ON THE INTERNAL CONTROL SELF-ASSESSMENT

The Board of Directors of the Company assessed the effectiveness of the Company's internal control as at 31 December 2017 in line with the requirements of the *Basic Standard for Enterprise Internal Control* and its supporting guidelines, as well as other regulatory requirements for internal control. In the opinion of the Board of Directors, the Company has maintained effective internal control over financial reporting in all material aspects in compliance with the requirements of the system of enterprise internal control standards and relevant regulations. During the reporting period, the Company had not any significant or material deficiencies of internal control over financial reporting, nor did it discover any significant or material deficiencies of internal control over non-financial reporting. For details, please refer to the *2017 Internal Control Assessment Report of Hua Xia Bank Co., Limited* disclosed by the Company on the website of Shanghai Stock Exchange (www.sse.com.cn) and the website of the Company (www.hxb.com.cn).

X. EXPLANATION ON AUDITOR'S REPORT ON INTERNAL CONTROL

The Company invited Deloitte Touche Tohmatsu Certified Public Accountants LLP to perform an audit of the effectiveness of internal control over financial reporting of the Company in accordance with the requirements of the *Basic Standard for Enterprise Internal Control* and the *Guideline for Enterprise Internal Control Audit*. The auditor deems that the Company has maintained effective internal control over financial reporting in all material aspects in compliance with the *Basic Standard for Enterprise Internal Control* and relevant regulations. For details, please refer to the *Auditor's Report on Internal Control of Hua Xia Bank Co., Limited* disclosed by the Company.

SECTION X FINANCIAL STATEMENTS

I. Auditor's Report (see Appendix)

II. Financial Statements (see Appendix)

III. Changes in Accounting Policies and Estimates and Corrections of Accounting Errors during the Reporting Period

i. Government subsidies

As per the *Accounting Standards for Business Enterprises No.16—Government Subsidies* which was revised by MOF in 2017, the government subsidies related to assets are determined as deferred income, and accounted into profit or loss after they are divided averagely according to the service life at the Group. For covering the relevant expenses or losses in future periods, they are determined as deferred income and accounted into profit or loss after the relevant expenses or losses are recognized; for relating to the Group's daily activities, they shall be accounted into other incomes in the light of the economic nature of business.

ii. Profit/loss from the disposal of assets

According to the *Notice on Issuing the Revised Format of General Corporate Financial Statements* (C.K. [2017] No.30) released by MOF on 25 December 2017, the Group presents and reports under the item of "asset disposal income" the profits or losses recognized in the sale, disposal or restructuring of the non-current assets classified as held-for-sale (excluding financial instruments, long-term equity investments, and investment properties) as well as the profits or losses generated from the disposal of the fixed assets, construction in progress and intangible assets not classified as held-for-sale.

SECTION XI LIST OF DOCUMENTS FOR INSPECTION

I. Accounting Statements Bearing Seals and Signatures of the Legal Representative, President, and Principal of Financial Affairs.

II. Original of the Auditor's Report Bearing Common Seal of the Accounting Firm and Seals and Signatures of CPAs.

III. Original of the Annual Report Bearing the Signature of Chairman of the Company.

IV. Originals of All Documents and Announcements Disclosed by the Company on the *China Securities Journal, Shanghai Securities News* and *Securities Times* during the Reporting Period.

V. The Articles of Association of Hua Xia Bank Co., Limited.

Chairman: Li Minji

Board of Directors of Hua Xia Bank Co., Limited

18 April 2018

WRITTEN CONFIRMATION OF THE ANNUAL REPORT 2017 BY DIRECTORS AND SENIOR MANAGEMENT MEMBERS OF HUA XIA BANK CO., LIMITED

Pursuant to relevant provisions and requirements of the *Securities Law* and the *Standards Concerning the Contents and Formats of Information Disclosure by Companies that Offer Securities to the Public No. 2 — Contents and Formats of Annual Reports (Revision 2016)*, we, in the capacity of Directors and Senior Management Members of Hua Xia Bank Co., Limited, after a full understanding and review of the Annual Report 2016 of the Company and its summary, are in the opinion that:

1. The Company operates in strict compliance with the Accounting Standards for Business Enterprises and its application guidelines; the Annual Report 2016 of the Company and its summary present the financial position and operating results of the Company during the reporting period in a fair way.

2. The Auditor's Report 2016 of Hua Xia Bank Co., Limited issued by Deloitte Touche Tohmatsu Certified Public Accountants LLP is true, objective and impartial.

We undertake that the information contained in the Annual Report 2016 of the Company and its summary is authentic, accurate and complete without any false record, misleading statement or material omission, and assume individual and joint and several liabilities to the authenticity, accuracy and completeness of the information herein.

28 April 2018

Name	Position	Signature
Li Minji	Chairman	
Li Ruge	Vice Chairman	
Zhang Jianhua	Director, President	
Wang Hongjun	Director	
Lin Zhiyong	Director	
Li Jianbo	Director	
Liu Chunhua	Director, CAO	

Name	Position	Signature
Ren Yongguang	Director, Vice President	
Zhao Junxue	Director, Secretary to the Board of Directors	
Ding Shilong	Director	
Zou Libin	Director	
Zhang Wei	Director	
Zeng Xiangquan	Independent Director	
Yu Changchun	Independent Director	
Xiao Wei	Independent Director	
Chen Yonghong	Independent Director	
Yang Delin	Independent Director	
Wang Huacheng	Independent Director	
Li Xiang	Vice President	
Lu Guoyi	Vice President	
Guan Wenjie	Vice President, Principal of Financial Affairs	
Wang Yiping	Vice President	

AUDITOR'S REPORT

D.SH.B. (SH) Z. (18) No. P02658

(Page 1 out of 5)

To the shareholders of Hua Xia Bank Co., Limited,

I. AUDIT OPINION

We have audited the financial statements of Hua Xia Bank Co., Limited (the "Bank"), which comprise consolidated and bank balance sheet as at 31 December 2017, income statement, statement of cash flows and statement of changes in equity of the Group and the Bank for the year then ended and notes to these financial statements.

In our opinion, the attached financial statements comply with the requirements of the Accounting Standards for Business Enterprises in all material respects and present fairly the financial position of the Group and the Bank as at 31 December 2017 and the operating results and cash flows of the Group and the Bank for the year then ended.

II. BASIS FOR AUDIT OPINION

We conducted our audit in accordance with the Auditing Standards for Chinese Certified Public Accountants. Our responsibilities under those standards are further described in the "Certified Public Accountant's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Bank in accordance with the Code of Ethics for Certified Public Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. KEY AUDIT ISSUES

Key audit issues are those matters that, in our professional judgment, are of most significance in our audit of the financial statements of the current year. These issues are addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these issues. We determine the followings are the key audit issues that merit communication in our auditor's report.

1. Allowance for impairment losses set aside for loans and advances to customers and account receivable held for investment:

Issue description

As indicated by Note IX – 8. Loans and advances to customer to the Financial Statements, the Bank disbursed loans and advances totaling RMB1,394,082 million and saw the outstanding allowance for impairment losses stood at RMB38,497 million as of 31 December 2017. As indicated by Note IX – 11. Account receivable held for investment to Financial Statements, the Bank has its account receivable held for investment of RMB252,310 million and saw the outstanding allowance for impairment losses stood at RMB1,995 million as of 31 December 2017. As shown in Note V – 1, the Bank shall recheck the book value of loans and advances to customers and account receivable held for investment and set aside the allowance for impairment losses on each balance sheet date. While setting aside the allowance for impairment losses, the senior management of the Bank shall on the sensible and well-established grounds estimate the amount and time of the future cash inflow or sensibly determine the future cash flow to be generated by the financial asset portfolios with similar risk features with reference to the previous data on the losses caused by such portfolios. The process requires the senior management of the Bank to employ significant judgments and estimations, thus involving fairly great complexity.

AUDITOR'S REPORT (CONTINUED)

D.SH.B. (SH) Z. (18) No. P02658

(Page 2 out of 5)

III. KEY AUDIT ISSUES (CONTINUED)

1. Allowance for impairment losses set aside for loans and advances to customers and account receivable held for investment (continued):

As the balance of loans and advances to customers and account receivable held for investment are of importance and significant estimations and judgments are involved while the senior management measures impairment losses, we have identified the provision for impairment losses caused by loans and advances to customers and account receivable held for investment as a key audit issue.

Audit countermeasure:

The major audit procedures we have implemented are listed as below:

- Testing and assessing the effectiveness of internal controls relating to the estimation of impairment losses arising from loans and advances to customer and account receivable held for investment and the provision of allowance for such impairment losses;
- Selecting samples for credit review, assessing the assumptions employed by the Bank, and rechecking the foundation based on which the senior management estimates the future cash inflow and the realizable value of held collaterals;
- For the assets that apply the individual provisioning, sampling and testing the par value of the future cash flow estimated by the senior management and its basis;
- For the assets that apply the collective provisioning, understanding and assessing the collective provisioning method adopted by the Bank and the appropriateness of using key assumptions, and running the re-calculating program to check whether the provisioning for impairment losses is accurate.

2. Consolidated recognition of structured entities:

Issue description

As indicated by Note XIV. Structured entities, structured entities mainly include wealth management products, asset-backed securities, funds, trust plans, and asset management programs that the Bank issues, manages or invests in. The Bank enjoys rights and interests in structured entities by initiating establishment, directly holding investments, reserving equity shares, or other means. While determining whether the Bank should include the structured entities into the consolidated scope, the senior management needs to consider powers exercised by the Bank over such entities, risks exposed to it due to them and compensation entitled to it through the related activities of the structured entities as well as the ability though which it may wield the related authority to influence its variable returns. The recognition of structured entities requires the senior management to make significant accounting estimation and judgment, and whether these entities can be consolidated will have major bearings on the Bank's financial statements. Therefore, we have identified the structured entities as a key audit issue.

AUDITOR'S REPORT (CONTINUED)

D.SH.B. (SH) Z. (18) No. P02658

(Page 3 out of 5)

III. KEY AUDIT ISSUES (CONTINUED)

2. Consolidated recognition of structural entities (continued):

Audit countermeasure:

The major audit procedures we have implemented are listed as below:

- Testing and assessing the effectiveness of internal controls relating to consolidation of structured entities;
- Sampling and checking the related contract documents, and assessing the appropriateness of the conclusion on whether the Bank can control the structured entities in terms of the powers exercised by the Bank over these entities, the variable returns from such entities, and the ability of the Bank to influence such returns by wielding its authority;
- Assessing the adequacy and appropriateness of disclosures made in the financial statements relating to the structured entities.

3. Derecognition of financial assets

Issue description

As illustrated in Note XIII. Transfer of financial assets, the Bank conducted different types of transactions to transfer financial assets, including asset-backed securities and loans in 2017. The senior management needs to assess the risks arising from financial asset transfers and to which extent the compensation thereof could be transferred, and thus judge whether the conditions for derecognition of financial assets can be reached. The derecognition of financial assets requires the senior management to make significant accounting estimation and judgment, and it also has major bearings on the Bank's financial statements. Therefore, we have identified the derecognition of financial assets as a key audit issue.

Audit countermeasure:

The major audit procedures we have implemented are listed as below:

- Testing and assessing the effectiveness of internal controls relating to the derecognition of financial assets;
- Sampling and checking the related agreements and legal documents, and assessing the Bank's rights and obligations; judging whether the Bank has transferred to an independent third party the right to cash flows generated from the related contracts, or whether the arrangement through which the Bank collects the contract-generating cash flows and pays them to an independent third party can meet the requirements for "pass-through tests";
- Sampling and checking the findings of risk and compensation transfer tests carried out by the senior management, and assessing whether the transferred financial assets meet the conditions for derecognition of financial assets;
- Assessing the adequacy and appropriateness of disclosures made in the financial statements relating to the transfer of financial assets.

AUDITOR'S REPORT (CONTINUED)

D.SH.B. (SH) Z. (18) No. P02658

IV. OTHER INFORMATION

The senior management of the Bank shall be liable for other information. The other information comprises the information included in the 2017 annual report, other than the financial statements and our auditor's report thereon.

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

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

V. THE SENIOR MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The senior management of the Bank shall prepare the financial statements in accordance with the *Accounting Standards for Enterprises* and present them fairly; design, implement and maintain necessary internal controls so that the financial statements are free from material misstatement, whether due to fraud or error.

While drafting the financial statements, the senior management shall assess the business continuity of the Bank, disclose the affairs relating to business continuity (if applicable), and employ the assumption on business continuity, unless it plans to liquidate the Bank, terminates its operation or has no other feasible choice.

The governance body shall oversee the financial reporting process of the Bank.

VI. CERTIFIED ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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 audit opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards 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 the financial statements.

As part of an audit in accordance with auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. At the same time we also do the following work:

(1) Identify and assess the risks of material misstatement of the 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 auditing 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.

AUDITOR'S REPORT (CONTINUED)

D.SH.B. (SH) Z. (18) No. P02658

(Page 5 out of 5)

VI. CERTIFIED ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the senior management.

(4) Reach a conclusion on the appropriateness of the senior management's using the assumption on business continuity. Conclude based on the audit evidence obtained whether there are material uncertainties on the affairs or conditions which may cast significant doubt on the Bank's business continuity. 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 financial statements or, if such disclosures are inadequate, we should issue the non-unqualified auditing opinion. Our conclusions are based on the information obtained up to the issue date of the auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for guiding, overseeing and executing the group-wide audit, and assume full liability for the audit opinion.

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

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

From the matters communicated with the governance body, we determine those matters that are of the most significance in the audit of the financial statements of the current period and are therefore the key audit issues. We describe these issues in our auditor's report unless law or regulation precludes public disclosure about the issues or when, in extremely rare circumstances, we determine that an issue 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.

Deloitte Touche Tohmatsu Certified Public Accountants LLP	Certified Public Accountants Registered in China	Fan Lihong (Engagement Partner)
		Li Jie

Shanghai, China

18 April 2018

BANK AND CONSOLIDATED BALANCE SHEET

31 December 2017 (In RMB millions, unless otherwise stated)

		The Group		The Bank	
	Note IX	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Assets					
Cash on hand and balances with central banks	1	225,837	222,173	225,382	221,456
Due from banks	2	56,866	133,780	55,827	133,663
Placements with banks and other financial institutions	3	15,220	15,868	15,220	15,868
Financial assets measured at fair value through profit or loss	4	3,206	4,939	3,206	4,939
Derivative financial assets	5	3,256	803	3,256	803
Financial assets held under resale agreements	6	40,203	122,032	40,203	122,032
Interest receivable	7	15,362	13,807	15,330	13,796
Loans and advances	8	1,355,585	1,184,355	1,300,368	1,139,301
Available-for-sale financial assets	9	110,312	92,252	110,312	92,252
Held-to-maturity investments	10	401,493	345,593	402,093	345,593
Account receivable held for investment	11	250,315	197,378	249,428	196,478
Long-term equity investments	12	–	–	5,090	2,630
Fixed assets	13	12,864	11,372	12,829	11,341
Intangible assets	14	83	84	80	83
Deferred income tax assets	15	6,533	5,984	6,291	5,780
Other assets	16	11,792	5,815	10,486	5,426
Total assets		**2,508,927**	**2,356,235**	**2,455,401**	**2,311,441**

BANK AND CONSOLIDATED BALANCE SHEET (CONTINUED)

31 December 2017 (In RMB millions, unless otherwise stated)

	Note IX	The Group 31 December 2017	The Group 31 December 2016	The Bank 31 December 2017	The Bank 31 December 2016
Liabilities					
Due to central banks	18	116,019	108,005	116,000	108,000
Due to banks and other financial institutions	19	231,356	225,133	232,174	226,211
Placements from banks and other financial institutions	20	65,045	73,130	22,677	37,377
Derivative financial assets	5	1,696	1,093	1,696	1,093
Financial assets sold under repurchase agreements	21	70,002	106,696	70,002	106,696
Deposits taken	22	1,433,907	1,368,300	1,434,683	1,366,008
Accrued payroll	23	6,535	8,157	6,434	8,052
Taxes and dues payable	24	5,879	5,454	5,791	5,313
Interest payable	25	15,883	14,655	15,446	14,294
Debt obligations payable	26	369,689	268,184	369,689	268,184
Other liabilities	27	23,418	24,455	14,108	18,885
Total liabilities		**2,339,429**	**2,203,262**	**2,288,700**	**2,160,113**
Equity					
Share capital	28	12,823	10,686	12,823	10,686
Other equity instruments	29	19,978	19,978	19,978	19,978
Of which: Preference shares		19,978	19,978	19,978	19,978
Capital reserve	30	26,625	28,762	26,624	28,761
Other comprehensive income	43	(1,152)	22	(1,152)	22
Surplus reserve	31	11,703	9,771	11,703	9,771
General risk reserve	32	30,055	24,605	29,467	24,269
Retained profit	33	68,023	58,360	67,258	57,841
Total equity attributable to shareholders of the parent company		168,055	152,184	166,701	151,328
Minority shareholders' equity		1,443	789	–	–
Total shareholders' equity		**169,498**	**152,973**	**166,701**	**151,328**
Total liabilities and equity		**2,508,927**	**2,356,235**	**2,455,401**	**2,311,441**

The accompanying notes are an integral part of these financial statements

The financial statements on pages 99-213 are signed by:

Legal representative:	President	Principal of Financial Affairs	Seal
Li Minji	Zhang Jianhua	Guan Wenjie	

BANK AND CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017 (In RMB millions, unless otherwise stated)

	Note IX	The Group 2017	The Group 2016	The Bank 2017	The Bank 2016
I. Operating income		**66,384**	**64,015**	**65,021**	**62,642**
Net interest income	34	47,318	48,989	46,493	48,176
Interest income		100,232	88,242	97,797	86,191
Interest expense		(52,914)	(39,253)	(51,304)	(38,015)
Net fee and commission income	35	18,407	14,656	17,898	14,103
Fee and commission income		20,447	16,124	19,925	15,551
Fee and commission expenses		(2,040)	(1,468)	(2,027)	(1,448)
Investment gains/(losses)	36	(1,527)	717	(1,524)	717
Gains/(losses) from the changes in fair value	37	1,836	(494)	1,836	(494)
Exchange gains	38	284	130	284	130
Other operating income		32	27	14	20
Profit/loss from the disposal of assets		(9)	(10)	(9)	(10)
Other income		43	–	29	–
II. Operating expenses		**(40,267)**	**(37,906)**	**(39,706)**	**(37,084)**
Tax and surcharges	39	(754)	(1,941)	(736)	(1,880)
General and administrative expenses	40	(21,878)	(22,086)	(21,655)	(21,878)
Asset impairment losses	41	(17,589)	(13,865)	(17,302)	(13,313)
Other business costs		(46)	(14)	(13)	(13)
III. Operating profit		**26,117**	**26,109**	**25,315**	**25,558**
Plus: Non-operating income		207	172	196	141
Less: Non-operating expenses		(71)	(38)	(71)	(37)
IV. Total profit		**26,253**	**26,243**	**25,440**	**25,662**
Less: Income tax expense	42	(6,320)	(6,487)	(6,119)	(6,339)
V. Net profit		**19,933**	**19,756**	**19,321**	**19,323**
i. Classified by operational continuity					
1. Net profit from continuous operation		19,933	19,756	19,321	19,323
2. Net profit from ceased operation		–	–	–	–
ii. Classified by ownership affiliation					
1. Net profit attributable to the parent company		19,819	19,677	19,321	19,323
2. Minority shareholders' gains/losses		114	79		
VI. After-tax other comprehensive income	43	**(1,174)**	**(1,270)**	**(1,174)**	**(1,270)**
i. Other comprehensive income not to be classified as profit/loss		–	–	–	–
ii. Other comprehensive income to be classified as profit/loss					
1. Profit/loss from changes in fair value of available-for-sale financial assets		(1,174)	(1,270)	(1,174)	(1,270)
After-tax other comprehensive income attributable to shareholders of the parent company		(1,174)	(1,270)	(1,174)	(1,270)
After-tax other comprehensive income attributable to minority shareholders		–	–		
VII. Total comprehensive income		**18,759**	**18,486**	**18,147**	**18,053**
Total comprehensive income attributable to shareholders of the parent company		18,645	18,407	18,147	18,053
Total comprehensive income attributable to minority shareholders		114	79	–	–
VIII. Earnings per share					
Basic earnings per share (RMB yuan)	44	1.48	1.53		

The accompanying notes are an integral part of these financial statements

BANK AND CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017 (In RMB millions, unless otherwise stated)

		The Group		The Bank	
	Note IX	2017	2016	2017	2016
Cash flows from operating activities					
Net increase in customer deposits and due to banks and other financial institutions		71,830	–	74,638	–
Net increase in due to central banks		8,014	77,978	8,000	78,000
Net increase in placements from banks and other financial institutions and financial assets under reverse repurchase agreements		–	35,194	–	29,936
Net decrease in placements with banks and other financial institutions and financial assets under reverse repurchase agreements		–	25,506	–	25,506
Net decrease in balances with central banks and due from banks and other financial institutions		7,423	–	7,236	–
Net increase in business debt obligations payable		54,505	161,291	54,505	161,291
Proceeds from interest and fee & commission		98,611	86,121	95,722	83,490
Other proceeds received related to operating activities		7,144	13,285	3,361	12,808
Sub-total of cash inflows from operating activities		247,527	399,375	243,462	391,031
Net decrease in customer deposits and due to banks and other financial institutions		–	(28,430)	–	(31,289)
Net increase in loans and advances to customers		(188,043)	(155,971)	(177,610)	(147,454)
Net decrease in placements from banks and other financial institutions and financial assets under reverse repurchase agreements		(44,779)	–	(51,394)	–
Net increase in balances with central banks and due from banks and other financial institutions		–	(1,039)	–	(895)
Net increase in placements with banks and other financial institutions and financial assets under reverse repurchase agreements		(900)	–	(900)	–
Cash paid as interest and fee & commission expenses		(51,620)	(40,868)	(50,073)	(39,723)
Cash paid to and for employees		(13,820)	(12,628)	(13,655)	(12,514)
Taxes and dues paid		(12,086)	(11,210)	(11,837)	(10,958)
Other cash paid related to operating activities		(24,107)	(9,317)	(23,031)	(9,114)
Sub-total of cash outflows from operating activities		(335,355)	(259,463)	(328,500)	(251,947)
Net cash flows from operating activities	46	**(87,828)**	**139,912**	**(85,038)**	**139,084**
Cash flows from investing activities					
Proceeds from disposal of investments		744,843	712,708	744,243	712,708
Investment gains received		26,763	18,642	26,716	18,641
Net gains on disposal of fixed assets, intangible assets and other long-term assets		208	192	208	191
Sub-total of cash inflows from investing activities		771,814	731,542	771,167	731,540
Acquisition of investments		(872,587)	(997,842)	(872,587)	(996,942)
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(2,611)	(1,233)	(2,601)	(1,231)
Net cash paid for capital increase in subsidiaries		–	–	(2,460)	–
Sub-total of cash outflows from investing activities		(875,198)	(999,075)	(877,648)	(998,173)
Net cash flows from operating activities		**(103,384)**	**(267,533)**	**(106,481)**	**(266,633)**

BANK AND CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2017 (In RMB millions, unless otherwise stated)

		The Group		The Bank	
	Note IX	2017	2016	2017	2016
Cash flows from financing activities					
Proceeds from disposal of investments		540	19,978	–	19,978
Of which: Cash received by subsidiaries from investment of minority shareholders		540	–	–	–
Proceeds from issuance of bonds		52,000	40,000	52,000	40,000
Sub-total of cash inflows from financing activities		52,540	59,978	52,000	59,978
Cash paid for debt repayment		(5,000)	–	(5,000)	–
Cash paid for dividends and profit distribution or interest repayment		(4,880)	(4,758)	(4,880)	(4,758)
Of which: Cash dividend paid by subsidiaries to minority interests		(1)	–	–	–
Sub-total of cash outflows from financing activities		(9,880)	(4,758)	(9,880)	(4,758)
Net cash flows from financing activities		**42,660**	**55,220**	**42,120**	**55,220**
Effect of exchange rate changes on cash and cash equivalents		**(662)**	**838**	**(662)**	**838**
Net change of cash and cash equivalents	46	**(149,214)**	**(71,563)**	**(150,061)**	**(71,491)**
Plus: Opening balance of cash and cash equivalents		**259,405**	**330,968**	**258,780**	**330,271**
Closing balance of cash and cash equivalents	45	**110,191**	**259,405**	**108,719**	**258,780**

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(In RMB millions, unless otherwise stated)

		Equity attributable to shareholders of the parent company									
	Note IX	Share capital	Others Equity instrument	Capital reserve	Others Comprehensive income	Surplus reserve	General Risk reserve	Retained profit	Subtotal	Minority Equity	Total
I. Balance as at 1 January 2017		10,686	19,978	28,762	22	9,771	24,605	58,360	152,184	789	152,973
II. Changes during the year											
i. Net profit		–	–	–	–	–	–	19,819	19,819	114	19,933
ii Other comprehensive income	43	–	–	–	(1,174)	–	–	–	(1,174)	–	(1,174)
Subtotal of the above i and ii		–	–	–	(1,174)	–	–	19,819	18,645	114	18,759
iii. Capital injection by equity holders											
1. Capital injection by minority shareholders		–	–	–	–	–	–	–	–	540	540
iv. Profit distribution											
1. Surplus reserve withdrawn	31	–	–	–	–	1,932	–	(1,932)	–	–	–
2. General reserve withdrawn	32	–	–	–	–	–	5,450	(5,450)	–	–	–
3. Distribution of dividends on ordinary shares	33	–	–	–	–	–	–	(1,934)	(1,934)	–	(1,934)
4. Distribution of dividends on preference shares	33	–	–	–	–	–	–	(840)	(840)	–	(840)
v. Internal conversion of shareholders' equity											
1. Conversion of capital reserve into share capital	33	2,137	–	(2,137)	–	–	–	–	–	–	–
III. Balance as at 31 December 2017		**12,823**	**19,978**	**26,625**	**(1,152)**	**11,703**	**30,055**	**68,023**	**168,055**	**1,443**	**169,498**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2017 (In RMB millions, unless otherwise stated)

		Equity attributable to shareholders of the parent company									
	Note IX	Share capital	Others Equity instrument	Capital reserve	Others Comprehensive income	Surplus reserve	General Risk reserve	Retained profit	Subtotal	Minority Equity	Total
I. Balance as at 1 January 2016		10,686	–	28,762	1,292	7,913	21,451	47,574	117,678	710	118,388
II. Changes during the year											
i. Net profit		–	–	–	–	–	–	19,677	19,677	79	19,756
ii Other comprehensive income	43	–	–	–	(1,270)	–	–	–	(1,270)	–	(1,270)
Subtotal of the above i and ii		–	–	–	(1,270)	–	–	19,677	18,407	79	18,486
iii. Capital injection by equity holders											
1. Capital injection by other equity instruments holders	29	–	19,978	–	–	–	–	–	19,978	–	19,978
iv. Profit distribution											
1. Surplus reserve withdrawn	31	–	–	–	–	1,858	–	(1,858)	–	–	–
2. General reserve withdrawn	32	–	–	–	–	–	3,154	(3,154)	–	–	–
3. Dividend distribution	33	–	–	–	–	–	–	(3,879)	(3,879)	–	(3,879)
III. Balance as at 31 December 2016		**10,686**	**19,978**	**28,762**	**22**	**9,771**	**24,605**	**58,360**	**152,184**	**789**	**152,973**

The accompanying notes are an integral part of these financial statements

BANK STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(In RMB millions, unless otherwise stated)

	Note IX	Share capital	Others Equity instrument	Capital reserve	Others Comprehensive income	Surplus reserve	General Risk reserve	Retained profit	Total
I. Balance as at 1 January 2017		10,686	19,978	28,761	22	9,771	24,269	57,841	151,328
II. Changes during the year									
i. Net profit		–	–	–	–	–	–	19,321	19,321
ii Other comprehensive income	43	–	–	–	(1,174)	–	–	–	(1,174)
Subtotal of the above i and ii		–	–	–	(1,174)	–	–	19,321	18,147
iii. Profit distribution									
1. Surplus reserve withdrawn	31	–	–	–	–	1,932	–	(1,932)	–
2. General reserve withdrawn	32	–	–	–	–	–	5,198	(5,198)	–
3. Distribution of dividends on ordinary shares	33	–	–	–	–	–	–	(1,934)	(1,934)
4. Distribution of dividends on preference shares	33	–	–	–	–	–	–	(840)	(840)
iv. Internal conversion of shareholders' equity									
Conversion of capital reserve into share capital	33	2,137	–	(2,137)	–	–	–	–	–
III. Balance as at 31 December 2017		**12,823**	**19,978**	**26,624**	**(1,152)**	**11,703**	**29,467**	**67,258**	**166,701**

BANK STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2017 (In RMB millions, unless otherwise stated)

	Note IX	Share capital	Others Equity instrument	Capital reserve	Others Comprehensive income	Surplus reserve	General Risk reserve	Retained profit	Total
I. Balance as at 1 January 2016		10,686	–	28,761	1,292	7,913	21,427	47,097	117,176
II. Changes during the year									
i. Net profit		–	–	–	–	–	–	19,323	19,323
ii Other comprehensive income	43	–	–	–	(1,270)	–	–	–	(1,270)
Subtotal of the above i and ii		–	–	–	(1,270)	–	–	19,323	18,053
iii. Capital injection by equity holders									
1. Capital injection by other equity instruments holders	29	–	19,978	–	–	–	–	–	19,978
iv. Profit distribution									
1. Surplus reserve withdrawn	31	–	–	–	–	1,858	–	(1,858)	–
2. General reserve withdrawn	32	–	–	–	–	–	2,842	(2,842)	–
3. Dividend distribution	33	–	–	–	–	–	–	(3,879)	(3,879)
III. Balance as at 31 December 2016		**10,686**	**19,978**	**28,761**	**22**	**9,771**	**24,269**	**57,841**	**151,328**

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017 (In RMB millions, unless otherwise stated)

I. PROFILE OF THE BANK

Hua Xia Bank Co., Limited (hereinafter "the Bank"), formerly known as Hua Xia Bank, was established as a nationwide commercial bank on 14 October 1992 with the approval of People's Bank of China ("PBOC"). On 10 April 1996, Hua Xia Bank was approved by PBOC to be restructured as a joint-stock limited company by means of promoter incorporation, and then renamed as Hua Xia Bank Co., Limited. On 21 July 2003, the Bank obtained approval from China Securities Regulatory Commission ("CSRC") for offering of A shares. On 12 September 2003, the Bank was listed.

The Bank held the License for Financial Business (No. B0008H111000001) upon approval by China Banking Regulatory Commission ("CBRC"), and it acquired the Business License for Enterprises with a unified social credit code of 9111000010112001XW upon approval by the Beijing Administration for Industry and Commerce.

On 21 May 2004, the Bank converted the capital reserve of RMB700,000,000 into share capital at a ratio of 2 for 10 shares on the basis of 3.5 billion of shares as at 31 December 2003. After the conversion, the registered capital reached RMB4,200,000,000, which has been specially verified by Beijing Jingdu Certified Public Accountants, with the Capital Verification Report (Beijing Jingdu Y.Z. (2004) No. 0017).

On 15 October 2008, with approval of CSRC, the Bank issued 790,528,316 RMB-denominated ordinary shares (A shares) in a non-public offering to three designated investors, namely Shougang Corporation (now named Shougang Group Co., Ltd.), State Grid Corporation (now named State Grid Corporation of China) and DEUTSCHE BANK AKTIENGESELLSCHAFT. After the additional offering, the registered capital was RMB4,990,528,316. The newly increased capital was verified by Beijing Jingdu Certified Public Accountants which issued the Capital Verification Report (Beijing Jingdu Y.Z. (2008) No. 0085).

On 22 April 2011, with approval of CSRC, the Bank issued 1,859,197,460 RMB-denominated ordinary shares in a non-public offering to three designated investors, namely Shougang Corporation (now named Shougang Group Co., Ltd.), Yingda International Holdings Corporation, Ltd. (now named SGCC Yingda International Holdings Corporation, Ltd.) and DEUTSCHE BANK LUXEMBOURG S.A. After the additional offering, the registered capital was RMB6,849,725,776. The newly increased capital was verified by Jingdu Tinwha Certified Public Accountants Co., Ltd. which issued the Capital Verification Report (Jingdu Tinwha Y.Z. (2011) No. 0044).

On 24 July 2013, the Bank converted the capital reserve of RMB2,054,917,733 into share capital at a ratio of 3 for 10 shares on the basis of 6.8 billion of shares as at 31 December 2012. After the conversion, the registered capital reached RMB8,904,643,509. The newly increased capital has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership), with the Capital Verification Report (D.SH.B.(Y).Z. (13) No. 0577).

On 8 July 2015, the Bank converted the capital reserve of RMB1,780,928,702 into share capital at a ratio of 2 for 10 shares on the basis of 8.9 billion of shares as at 31 December 2014. After the conversion, the registered capital reached RMB10,685,572,211. The newly increased capital has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership), with the Capital Verification Report (D.SH.B.(Y).Z. (15) No. 1307).

On 23 February 2016, the Bank was approved by the CBRC to privately issue up to 200 million domestic preference shares and the par value of each shares is RMB100. The offering of preference shares valuing RMB20 billion was completed in March 2016, and the payment of the proceeds has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership), with the Capital Verification Report (D.SH.B.(Y).Z. (16) No. 0167).

On 29 June 2017, the Bank converted the capital reserve of RMB2,137,114,442 into share capital at a ratio of 2 for 10 shares on the basis of 10.686 billion of shares as at 31 December 2016. After the conversion, the registered capital reached RMB12,822,686,653. The newly increased capital has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership), with the Capital Verification Report (D.SH.B.(Y).Z. (17) No. 00366).

As at 31 December 2017, in addition to the Head Office, the Bank had established 40 tier-1 branches in Chinese Mainland, with outlets totaling 968.

The business scope of the Bank and its subsidiaries (collectively referred to as the "Group") covers: public deposit-taking, granting of short, medium and long-term loans; domestic and international settlement, bill acceptance and discount, issuance of financial bonds, issuance, encashment and underwriting of government bonds as an agent, trading of government bonds and financial bonds, inter-bank lending and borrowing, trading of foreign exchange on its own behalf and as an agent, bank card service, provision of letter of credit and letter of guarantee, collection and payment service as an agent, safety box service, foreign exchange settlement and sale, sideline insurance agency, leasing service and other services approved by the CBRC.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group follows the Accounting Standards for Business Enterprises and relevant rules (hereinafter referred to as "Accounting Standards for Business Enterprises") promulgated by the Ministry of Finance of PRC (the "MOF"). Besides, the Group also discloses relevant financial information in accordance with the *Rules for the Compilation and Submission of information Disclosure by Companies that Offer Securities to the Public No. 15 – General Provisions on Financial Report* (Revision 2014) issued by CSRC.

Ongoing concern

The Group has assessed its ability to sustain ongoing operation over the 12 months since 31 December 2017, finding no issue or condition that incurs a material ongoing concern. Therefore, the financial statements are drafted on the assumption of ongoing operation.

III. DECLARATION ON COMPLIANCE WITH THE ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

The financial statements prepared by the Group truly and fairly represent the financial position of the Bank and the Group as at 31 December 2017, and the operating results and cash flows of the Bank and the Group for the year then ended, in compliance with the Accounting Standards for Business Enterprises.

IV. MAJOR ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Accounting period

The accounting period of the Group begins on 1 January and ends on 31 December of the Gregorian calendar.

2. Bookkeeping base currency

Renminbi is the functional currency in the major economic environments of the Group's operation and the Group takes Renminbi as the bookkeeping base currency. The Group adopts Renminbi in the preparation of these financial statements.

3. Basis of accounting and measurement

The Group's accounting is on an accrual basis. Except some financial instruments that are measured at fair value, these financial statements are measured on the basis of historical costs. In case of impairment losses on assets, corresponding allowance for impairment losses shall be set aside according to relevant rules.

Measured on the basis of historical costs, assets shall be measured at the amount of cash or cash equivalents paid for purchasing them or the fair value of the consideration received. Liabilities shall be measured at the proceeds or assets received upon the assumption of obligations, or the contractual amount received upon the assumption of obligations, or the amount of cash or cash equivalents expected to be paid for debt repayment in daily activities.

Fair value refers to the amount received from selling an asset or the amount to be paid for transferring a liability by market players in orderly transactions on the measurement date. Whether the fair value is observed or estimated with valuation techniques, it is the basis of the fair value measured and disclosed in these financial statements.

4 Business combination

Business combination not under the same control and goodwill

Combination cost is the fair value of the assets paid, liabilities occurred or assumed and equity instruments issued by the buyer for acquiring the control right of the acquiree. The buyer's relevant expenses arising from business combination shall be recorded into current profit or loss upon occurrence.

At the acquisition date, recognizable assets, liabilities or contingent liabilities of the acquiree acquired by the buyer in the business combination are measured at fair value. For the balance between the combination cost and the fair value of recognizable net assets of acquiree acquired during the business combination, it will be recognized into goodwill as an asset and initially measured at cost.

Goodwill arising from business combination will be separately presented in the consolidated financial statements, and will be measured at the amount generated from the cost deducting accumulative allowance for impairment losses. Impairment test shall be conducted for goodwill at the end of each year at least.

The impairment loss on goodwill will be recognized as current profit or loss upon occurrence and will not be reversed in the subsequent accounting periods.

5. Preparation of consolidated financial statements

The consolidated scope of the consolidated financial statements shall be determined based on control. Control means that the Group has power over the investee, obtains variable return by participating in related activities of the investee and is able to influence its return amount by its power over the investee.

For subsidiaries disposed of by the Group, operating results and cash flows prior to the disposal date (date of losing control right) have been properly included in the consolidated income statement and the consolidated statement of cash flows.

For subsidiaries acquired by business combination under different control rights, operating results and cash flows as of the acquisition date (date of obtaining control right) have been properly included in the consolidated income statement and the consolidated statement of cash flows, and the opening balance and comparison amount of the consolidated financial statements will not be adjusted.

The major accounting policies and accounting period adopted by subsidiaries shall be determined based on those uniformly prescribed by the Bank.

All material accounts and transactions between the Bank and a subsidiary and among subsidiaries shall be offset at the time of business combination.

The part of the owners' equity of the subsidiaries not attributable to the parent company will be recognized as minority interest and be presented as "minority interests" under the item "shareholders' equity" of the financial statements. The part of the current profit or loss of the subsidiaries recognized as minority interests shall be presented as "minority interests" under the item "net profit" in the consolidated income statement.

If the loss of a subsidiary borne by a minority shareholder exceeds its share of equity at the beginning of the period in this subsidiary, the balance will be written off against the minority interests.

Structured entities refer to entities whose controllers are determined without considering the voting power or similar rights. Activities of such entities are usually guided by contractual arrangement or other arrangement methods including wealth management products, and asset-backed securities.

6. Recognition of the cash and cash equivalents

Cash refers to the cash on hand and deposits available for payment at any time. Cash equivalents refer to short-term investments with high liquidity held by the Group which are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

7. Foreign currency transactions

In the initial recognition of foreign currency transactions, the spot exchange rate on the transaction date shall be adopted. On the balance sheet date, foreign currency items shall be translated to RMB amounts by the spot exchange rate. The balance of exchange arising from the difference between the spot exchange rate on the balance sheet date and that in the initial recognition or prior to the balance sheet date is recorded into current profit or loss, except the following circumstances: (1) the balance of exchange arising from foreign currency borrowings eligible for capitalization is recognized into cost of relevant assets after capitalization during the capitalization period; (2) balance of exchange arising from hedging instruments that are used to avoid foreign exchange risks will be treated by the accounting treatment to hedging; (3) balance of exchange arising from changes in book balance other than the amortized cost of available-for-sale monetary items is recognized as other comprehensive income.

The foreign currency-denominated non-monetary items measured at historical cost shall be recorded by the amount presented in the bookkeeping base currency converted by the spot exchange rate on the transaction date. Foreign currency-denominated non-monetary items measured at fair value shall be converted by the spot exchange rate on the determination date of fair value.

8. Financial instruments

Corresponding financial assets or financial liabilities shall be recognized when the Group becomes a party to a financial instrument contract.

(1) Financial assets

Financial assets are classified into four categories at the initial recognition: financial assets measured at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The classification shall be determined based on the nature and purpose of the financial assets at the initial recognition. Initially recognized financial assets are measured at fair value. For financial assets measured at fair value through profit or loss, the transaction costs thereof are directly recorded through profit or loss; for other categories of financial assets, the transaction expenses thereof are included in the initially recognized amount. Financial assets traded in a regular manner will be recognized or derecognized in line with the accounting treatment on the transaction date. Buying or selling a financial asset in a regular manner means the financial asset traded is delivered within the time limit specified by market rules or practices.

Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit or loss include held-for-trading financial assets and those financial assets measured at fair value through profit or loss measured at the initial recognition.

Held-for-trading financial assets refer to financial assets meeting any of the following conditions:

(i) the purpose of acquiring such financial assets is mainly for selling in a short term;

(ii) they are part of the recognizable financial instrument portfolio under centralized management and there is objective evidence proving that the Group adopts the short-term profit-making method to manage the portfolio in the recent period;

(iii) they belong to derivative financial instruments other than those designated as effective hedging instruments, those subordinated to financial guarantee contracts, and those linked with equity instruments that have no quotation in active markets and fair values of which cannot be reliably measured, and settled with the delivery of such equity instruments.

Financial assets meeting any of the following conditions can be designated as financial assets measured at fair value through profit or loss at the initial recognition:

(i) The designation can eliminate or obviously reduce the discrepancies in the recognition or measurement of relevant gains or losses arising from different measurement bases of financial assets;

(ii) The official written documents on risk management or investment strategies of the Group have indicated that the financial assets portfolio or the portfolio of financial assets and liabilities of which the said financial asset is a component will be managed and evaluated on the basis of fair value and be reported to key management personnel;

(iii) Mixed instruments relating with embedded derivative instruments and eligible for designating as financial assets measured at fair value through profit or loss according to the Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments.

Financial assets measured at fair value through profit or loss are subsequently measured at fair value, and any gain or loss arising from changes in fair value, as well as dividends and interest income relating to such financial assets will be recorded through current profit or loss.

Held-to-maturity investments

Held-to-maturity investments refer to non-derivative financial assets that have a fixed maturity, fixed or determinable recoverable amount and that the Group has clear intent and ability to hold it to maturity.

After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method, less any impairment loss identified. Gains or losses are recognized into current profit or loss when such investments are derecognized, impaired or amortized. Effective interest method is the method of calculating amortized cost and interest income/expenses for various periods on the basis of the effective interest rate of the financial asset or financial liability (including a portfolio of financial assets or liabilities). Effective interest rate refers to the interest rate used when discounting the future cash flows of the financial assets or financial liabilities within the estimated renewal period or applicable shorter period into the current book value of the financial assets or financial liabilities.

While calculating the effective interest rate, the Group will estimate the future cash flows based on all the contract clauses of the financial assets or financial liabilities (without consideration of future credit losses), and will also consider various fees and transaction costs that are components of effective interest rate and paid or charged among all parties to the contract of financial assets or financial liabilities, as well as discount or premium etc.

Available-for-sale financial assets

The available-for-sale financial assets refer to the non-derivative financial assets that are defined as available for sale upon the initial recognition, as well as the financial assets other than the financial assets measured at fair value through gain or loss, loans, account receivables and held-to-maturity investments.

Available-for-sale financial assets are measured subsequently at fair value, and gains or losses arising from changes in fair value are recognized as other comprehensive income, which will be transferred out and recorded through current profit or loss when such financial assets are derecognized, except that impairment losses and exchange difference of foreign currency monetary financial assets relating with the amortized cost are recognized through current profit or loss.

Available-for-sale equity instruments that have no quotation in active markets and fair value of which cannot be measured on a reliable basis are measured at cost less any impairment loss identified at the end of the reporting period.

Interest obtained during the holding period of the available-for-sale financial assets and cash dividends announced and issued by the investee are recorded into interest income and investment income respectively.

Loans and receivables

Loans and receivables refer to non-derivative financial assets with fixed or determinable recoverable amount that are not quoted in an active market. The Group's loans and receivables include balances with central banks, due to banks and other financial institutions, placements with banks and other financial institutions, financial assets under reverse repurchase agreements, interest receivable, loans and advances and investments classified as receivables, etc., and they are measured at amortized cost using the effective interest rate method, less impairment loss. Gains or losses are recognized into current profit or loss when such investments are derecognized, impaired or amortized.

(2) Impairment of financial assets

Except financial assets measured at fair value through profit or loss, the Group carries out an inspection on the book value of other financial assets on the balance sheet date. If there is objective evidence that one or more events affecting estimated future cash flows of the financial assets occur after the initial recognition of those assets, impairment losses shall be recognized and allowance be set aside.

Objective evidences on impairment of the financial assets include the following observable circumstances:

(i) The issuer or debtor has serious financial difficulties;

(ii) The debtor violates provisions of the contract, e.g. default on or overdue payment of interest or principal;

(iii) The Group makes compromise to the debtor with financial difficulties due to consideration of economic or legal factors;

(iv) The debtor may possibly go bankruptcy or be otherwise restructured financially;

(v) The financial assets cannot be traded in the active market due to material financial difficulties of the issuer;

(vi) It is incapable of identifying whether the cash flows of a portfolio of financial assets decrease or not, but after overall assessment based on the public data, it has been found that the estimated future cash flows of the portfolio of financial assets have witnessed measurable decrease since the initial recognition, including the following circumstances:

a. the payment ability of the debtor of the financial assets has gradually worsened;

b. the country or region where the debtor is located encounters economic situations where the portfolio of financial assets may not be paid;

(vii) There are material unfavorable changes in the technological, market, economic or legal environments of the issuer of equity instruments, which possibly makes the equity instrument investors fail to recover its investment cost;

(viii) The fair value of the equity instrument decreased severely or not temporarily;

(ix) Other objective evidences indicating impairment of the financial assets.

Impairment of financial assets measured at amortized cost

If there is an objective evidence proving a financial asset measured at amortized cost is impaired, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (excluding future credit losses that haven't incurred) and will be recorded through current profit or loss. If the contract interest rate of the financial asset is a floating rate, then the discounting rate for determining the impairment loss shall be the current effective interest rate specified in the contract.

Whether the collateral is exercised or not, the present value of the future cash flows of financial asset with collateral will be estimated and calculated based on the exercise value of the collateral less the cost for acquiring and selling the collateral.

Firstly, the Group conducts separate impairment test on financial assets with significant single amount. For financial assets with insignificant single amount, it conducts separate impairment test or conducts the test in asset portfolios. For financial assets recognized with no impairment loss by separate test (including financial assets with significant or insignificant single amount), they will be included in the impairment test conducted on financial asset portfolio with similar credit risk features. For financial assets recognized with impairment loss by separate test, they will not be included in the impairment test conducted on financial asset portfolio with similar credit risk features.

The financial assets shall be grouped by the similarity and relevance of their credit risk characteristics for collective assessment on impairment. These credit risk characteristics are generally related to the estimation of future cash flows of the examined assets, which reflects the debtor's ability to repay all due amount in accordance with contract clauses on these assets.

When a financial asset is not recoverable and all necessary procedures are executed and the loss amount determined, the Group will write down corresponding allowance for impairment loss against the financial asset and write it off. Amount recovered after the financial asset is written off shall be written down against the allowance for asset impairment of the current period.

In a subsequent period, if the allowance for impairment loss decreases and the decrease can be objectively related to an event occurring after the allowance is recognized (e.g. upgrading of the borrower's rating), the originally recognized impairment loss shall be reversed. Nevertheless, the reversed book value of the financial asset will not exceed the amortized cost of the financial asset on the date of reverse under the assumption that no allowance for impairment is set aside.

Impairment of the available-for-sale financial assets

When the available-for-sale financial asset is impaired, the accumulated losses arising from the decline of fair value that have been originally included in other comprehensive income will be transferred out and recorded through current profit or loss. The amount of accumulative losses to be reversed is the balance of initial acquisition cost of the financial asset less the principal recovered and amortized amount, the current fair value and the impairment loss recognized into profit or loss.

After the impairment loss of an available-for sale financial asset is recognized, if, in a subsequent period, there is any objective evidence proving that its value has been recovered, and it is objectively related to the event occurring after such loss is recognized, the impairment loss originally recognized will be reversed. The impairment loss of available-for-sale equity instrument investments will be reversed and recognized as other comprehensive income and that of available-for-sale debt instruments will be reversed and recorded into current profit or loss. The impairment loss of available-for-sale equity instrument investments measured at cost will not be reversed.

(3) Financial liabilities

The Group classifies the financial instruments or their components into financial liabilities or equity instruments in the initial recognition, based on contractual clauses regarding the financial instruments issued and their underlying economic substance in stead of the legal form only, with reference to the definition of financial liability and equity instrument.

In the initial recognition, financial liabilities are classified into financial liabilities measured at fair value through profit or loss and other financial liabilities.

Financial liabilities measured at fair value through profit or loss

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

The conditions for classifying financial liabilities into held-for-trading financial liabilities and those measured at fair value through profit or loss designated in the initial recognition are the same with the conditions for classifying financial assets into held-for-trading financial assets and those measured at fair value through profit or loss designated in the initial recognition.

Financial liabilities measured at fair value through profit or loss are subsequently measured at fair value, and any gain or loss arising from changes in fair value as well as interest expenses relating to such financial liabilities will be recorded through current profit or loss.

Other financial assets

Financial liabilities other than financial guarantee contracts are subsequently measured at amortized cost based on effective interest rate method, and the gains or losses arising from derecognition or amortization are recorded through current profit or loss.

Financial guarantee contracts

Financial guarantee contract is the agreement between the guarantor and the creditor, according to which the guarantor shall fulfill the debt or assume responsibility when the debtor fails to fulfill the repayment obligation. For financial guarantee contracts that are not included in the designated financial liabilities measured at fair value through profit or loss, they are initially recognized by the fair value less direct transaction expenses. After the initial recognition, the subsequent measurement will be based on the amount determined according to the *Accounting Standards for Business Enterprises No. 13 – Contingent Matters* or the initially recognized amount less the accumulative amortized amount determined according to the *Accounting Standards for Business Enterprises No. 14 – Income*, whichever is higher.

(4) Derivative financial instruments

Derivative financial instruments are initially measured at fair value on the signing date of relevant contract, and subsequently measured at fair value. Change in fair value of the derivative financial instruments is recognized into current profit or loss.

For mixed instruments with embedded derivative financial instruments, such as financial assets or financial liabilities not designated to be measured at fair value through profit or loss, embedded derivative financial instruments without close relation with the master contract in terms of economic features and risks but with same conditions as the embedded financial derivative instruments, and instrument as an independent unit meeting the definition of derivative financial instruments, the embedded derivative financial instruments shall be split from the mixed instruments and treated as an independent derivative financial instrument.

(5) Determination method of fair value

Fair value refers to the amount received from selling an asset or the amount to be paid for transferring a liability by market players in orderly transactions on the measurement date. Whether the fair value is observed or estimated with valuation techniques, it is the basis of the fair value measured and disclosed in these financial statements.

As for financial assets and financial liabilities continuously measured by fair value, based on the observability of the input value of fair value and the overall importance of such input value to measurement of fair value, the Group divides the financial instruments into the following three levels:

Level 1: Fair value measurement refers to the unadjusted quotation of the same assets or liabilities obtainable in the active market on the measurement date;

Level 2: Fair value measurement refers to the directly or indirectly observable input value of related assets or liabilities other than the input value in Level 1;

Level 3: Fair value measurement refers to the unobservable input value of related assets or liabilities.

As for the financial instruments with active market, the Group adopts the quotation on the active market to determine their fair value.

The quotation for the financial instruments on the active market refers to the price easily accessible from exchanges, industrial associations, pricing service institutions or regulatory institutions on a regular basis, which also represents the frequently executed market trading price in fair transactions. If the above conditions are not met, then it is a non-active market. Signs of a non-active market include: significant bid-ask spread, markedly expanding bid-ask spread or no existence of recent transactions.

As for the financial instruments without active market, the Group adopts valuation techniques to determine their fair value. Valuation techniques include reference to the prices recently used in market transactions between well-informed willing parties, reference to current fair value of financial instruments of the same nature, discounted cash flow method and option pricing model.

(6) Derecognition

Transfer of financial assets

Where a financial asset meets any of the following conditions, it will be derecognized:

(i) Where the contractual rights for collecting cash flows of the said financial asset are terminated;

(ii) Where the financial asset has been transferred and nearly all of the risks and returns in connection with the ownership of the financial asset have been shifted to the transferee;

(iii) Where the financial asset has been transferred and the Group has given up control over the financial asset, though it does not transfer or retain almost all of the risks and returns in connection with the ownership of the financial asset;

In case that the Group neither transfers nor retains almost all the risks and returns relevant to ownership of the financial asset and it does not waive control over the financial asset, it shall recognize the financial asset based on the degree of involvement and concurrently recognize the related liabilities. The extent of the Group's continuing involvement is the extent to which the Bank is exposed to changes in the value of the transferred assets.

When the overall financial assets are derecognized, the difference between the book value of the transferred financial assets and the sum of the consideration received due to transfer and the accumulated changes in fair value originally recorded into other comprehensive income will be recorded through profit or loss.

When the partially transferred financial assets meet the conditions for derecognition, the book value of the transferred financial assets is apportioned at the fair value between the derecognized part and the remaining part, and the difference between the sum of the consideration received due to transfer and the accumulated changes in fair value originally recorded into other comprehensive income and the aforesaid apportioned fair value will be recorded through profit or loss.

Derecognition of financial liabilities

In the case that the current obligations of a financial liability are relieved in full or in part, the financial liability will be derecognized in full or in part. Where the Group (debtor) and creditor sign an agreement to replace the existing financial liability by assuming new financial liability of which contract terms are different from those of existing financial liability in essence, the existing financial liability will be derecognized and the new financial liability will be recognized at the same time.

Where all the financial liability is derecognized, the difference between book value of the financial liability and consideration paid (including non-cash assets or new financial liability assumed) will be recorded through current profit or loss.

(7) Offset between financial assets and financial liabilities

When the two conditions below are met, the net amount after offset of the financial assets and the financial liabilities will be presented on the balance sheet:

(i) The Group has the legal right to offset the recognized amount, and the right is executable at present;

(ii) The Group plans to settle by netting or realize such financial assets and pay off such financial liabilities at the same time.

Otherwise, financial assets and financial liabilities shall be presented on the balance sheet separately, instead of offsetting with each other.

(8) Equity instrument

Equity instruments are contracts which can prove the Group's remaining equity of the assets after deducting all the liabilities. The Group classifies the financial instruments to be issued as equity instruments when all of the following conditions are met:

(i) The financial instrument shall not include delivery of cash or other financial assets to other parties, or any contractual obligation of exchanging financial assets or liabilities with other parties under potentially unfavorable conditions;

(ii) The financial instrument shall or can be settled with the Group's own equity instruments in the future. In case of a non-derivative instrument, it shall not include any contractual obligation of settlement with the delivery of variable number of the Group's own equity instruments; in case of a derivative instrument, it can only be settled with fixed number of the Group's own equity instruments exchanging for cash or other financial assets with fixed amount.

The Group treats the offering (including refinancing), repurchase, sale or deregistering of equity instruments as equity movements. It does not recognize the movements of equity instruments' fair value. The expenses in relation to equity trading are deducted from the equity. The Group' treats its distribution to equity instrument holders as distribution of profits, and the stock dividend issued does not affect the total equity.

9. Financial assets under reverse repurchase agreements and financial assets under repurchase agreements

The securities, bills and other assets that are sold under repurchase agreement and will be repurchased in a specified future date at a specified price are presented by category of financial assets before the sale, and funds collected from counterparties are presented as financial assets under repurchase agreements. The consideration paid for purchasing securities, bills and other assets that are bought under the reverse repurchase contract and will be sold at a specified future date at a specified price is presented as financial assets under reverse repurchase agreements. The bid-ask spread of reverse repurchase or repurchase business is amortized by the effective interest rate during the transaction period, and gains or losses arising thereof will be recorded through current profit or loss.

10. Long-term equity investments

Control means that the investor has power over the investee, obtains variable return by participating in related activities of the investee and is able to influence its return amount by its power over the investee. Joint control refers to the control over a certain arrangement shared by more than one parties as agreed and related activities of this arrangement must be determined upon consent of all participants of the control power. Material impact means an entity has the power to participate in the financial affairs and operating policy of an enterprise but is unable to control or jointly control formulation of these policies together with other parties. At the time of determining whether to control or exert significant influence on the investee, the investee's current convertible corporate bonds and exercisable warrants held by the investor and other parties as well as other potential voting factors are taken into account.

A long-term equity investment is measured initially at cost. For long-term equity investment acquired by business combination not under the same control, the initial investment cost is the combination cost on the acquisition date.

Long-term equity investments acquired by means other than business combination are initially measured at cost. In the case that the investee is under significant influence or joint control but is not controlled, the cost of long-term equity investment is the fair value of originally held equity investment determined according to the Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments plus the new investment costs.

Long-term equity investment by cost accounting

The Group adopts the cost method to calculate its long-term equity investment in subsidiaries. Subsidiaries refer to investees controlled by the Group.

When the cost method is adopted, the long-term equity investment is priced at the initial investment cost. The cost of long-term equity investment will be adjusted upon addition or withdrawal of investment. The investment return for the current period is recognized based on cash dividend or profit announced to be distributed by the investee.

Long-term equity investment accounted by equity method

The Group applies the equity method to investment of associates and joint ventures. Associate refers to an investee that can be significantly influenced by the Group. Joint venture refers to a joint arrangement where the Group only has right over net assets of the arrangement.

When the equity method is adopted for accounting, for long-term equity investments with investment cost larger than the shares of the fair value of recognizable net assets of the investee during investment, the investment cost of long-term equity investments is not adjusted; and for long-term equity investments with investment cost smaller than the shares of the fair value of recognizable net assets of the investee during investment, the difference will be recorded through current profit or loss and the investment cost of the long-term equity investments will be adjusted.

When the equity method is adopted for accounting, the investment income and other comprehensive income shall be recognized separately based on the share of net profit or loss and other comprehensive income of the investee to be attributable to the Group, and the book value of long-term equity investments shall be adjusted at the same time. The profit or cash dividend attributable shall be calculated based on that to be distributed by the investee and the book value of long-term equity investments shall be reduced accordingly. Changes in owners' equity other than the investee's net profit or loss, other comprehensive income and profit distribution are recorded into capital reserve and the book value of long-term equity investments shall be adjusted accordingly. The attributable share of the investee's net profit or loss shall be determined based on the fair value of recognizable assets of the investee at the time of acquisition, and recognized after adjustment to the net profit of the investee according to the Group's accounting policies and accounting period. The unrealized profit or loss of internal transactions of the Group with associates and joint ventures attributable to the Group is calculated and offset as per the shareholding proportion, and the investment gains or losses are recognized after the offset. The unrealized loss arising from internal transactions of the Group with the investee that is categorized as impairment loss on transferred assets shall not be offset.

The net loss of the investee to be shared will be to the extent that the book value of long-term equity investment and other long-term equity substantially constituting net investment to the investee are written down to zero. In addition, if the Group has the obligation to assume additional loss of the investee, the projected liabilities will be recognized based on the obligation to be assumed and recorded through current investment loss. If the investee realizes net profit in the following periods, the Group will resume recognition of the attributable income after the income offsets the unrecognized loss.

Disposal of long-term equity investment

When the Group disposes of long-term equity investment, it records the difference between its book value and the actual acquisition cost through current profit or loss. The disposal of long-term equity investment accounted with equity method applies to the same basis with that used by the investee in directly disposing of relevant assets or liabilities. Accounting treatment will be conducted for the part of investment originally recorded into other comprehensive income by corresponding proportion.

11. Fixed assets

The fixed assets of the Group refer to tangible assets held for rendering of labor service, lease or operating management whose useful life exceeds one accounting year.

Fixed assets are measured initially at cost. Depreciation of fixed assets will be set aside based on the straight-line method over the useful life starting from the following month after the fixed assets reach their scheduled usable condition. The usable life, estimated residual rate and annual depreciation rate of all categories of fixed assets are shown as follows:

Category	Usable life	Estimated residual rate	Annual depreciation rate
Houses and buildings	20 – 35 years	5%	2.71% – 4.75%
Office supplies and electronic devices	3 – 5 years	5%	19.00% – 31.67%
Transportation facilities	5 – 10 years	5%	9.50% – 19.00%

Estimated residual value refers to the amount obtained by the Group from disposal of the asset deducting the estimated disposal expense, assuming that the fixed asset comes to the end of its estimated useful life at the expected status.

Any subsequent expenditure related to the fixed asset is recognized as cost of the fixed asset and the book value of the replaced part is derecognized in case that the future economic benefits associated with the asset is very likely to flow to the entity and the cost of the asset can be measured reliably. Other subsequent expenditures are recorded through current profit or loss at the time of occurrence.

At least at the end of every accounting year, the Group reviews the useful life, estimated residual value and depreciation methods for the fixed assets. Any changes will be treated as changes in accounting estimation.

The balance of disposal income from sale, transfer, retirement or destruction of fixed assets deducting their book value and related taxes and dues shall be recorded through profit or loss.

The cost of construction-in-process will be determined based on the actual expenditures of the project, including various project expenditures and other relevant expenses incurring during the construction period. Construction-in-process is converted into fixed asset when it reaches scheduled usable condition.

12. Intangible assets

Intangible assets refer to recognizable non-monetary assets with no physical form that are owned or controlled by the Group.

Intangible assets are measured initially at cost. For an intangible asset with a limited useful life, its original value will be amortized over its estimated useful life starting from the time when it is available for use. Intangible assets with uncertain useful life will not be amortized.

Land use right obtained is generally treated as an intangible asset in accounting. For self-developed houses and buildings, relevant land use right expenditure and the construction cost will be treated as intangible asset and fixed asset in accounting, respectively. For purchased houses and buildings, the cost will be allocated between the land use right and the buildings. If it is hard to realize reasonable allocation, all the cost will be accounted as fixed asset.

At the end of the period, the Group reviews the useful life and amortization method of the intangible asset with a limited useful life. Any changes will be treated as changes in accounting estimation.

13. Repossessed assets

Repossessed assets are initially recognized at fair value, and subsequently measured at the book value or recoverable amount at the end of the period, whichever is lower. When the recoverable amount of the repossessed asset is lower than its book value, impairment reserve for the asset will be set aside.

Gains or losses from disposal of the repossessed asset are recorded through current profit or loss.

If the repossessed asset is converted for private use, it shall be carried forward by its book balance on the date of transfer. If impairment reserve for the repossessed asset is set aside, the reserve shall also be carried forward.

14. Impairment of non-financial assets

At the end of the reporting period, the Group reviews the book value of long-term equity investments, fixed assets, construction-in-process and intangible assets, to confirm whether there is sign of impairment. If there is any sign of impairment on the asset, the recoverable amount shall be estimated. The Group estimates the recoverable amount based on a single asset; if it is hard to estimate the recoverable amount of a single asset, that of the asset portfolio where the single asset belongs will be measured. If the recoverable amount of the asset is lower than the book value, impairment reserve will be set aside based on the difference and be recorded through current profit or loss.

Recoverable amount is determined based on the fair value deducting disposal expense of the asset and present value of estimated future cash flows of the asset, whichever is higher. The fair value of assets is determined based on the price specified in the sales agreements of fair transactions; if there is active market but no sales agreement for the asset, its fair value will be determined based on the buyer's offer; if there is neither active market nor sales agreement, the fair value will be estimated based on the best information accessible. Disposal expenses include legal expense, taxes and carriage expense relating with the asset disposal as well as direct expenses for the asset to be available for sale. The present value of the estimated future cash flows of the assets will be determined based on the estimated future cash flows generated from continuous use and final disposal of the assets discounted by an appropriate discounting rate.

The above impairment loss of assets will not be reversed in the subsequent accounting periods once it is recognized.

15. Staff remuneration and welfare

Employee Compensation

The Group recognizes employees' short-term compensation actually incurred as liabilities during the reporting periods when the employees render services and records it through current profit or loss or relevant asset cost. The Group's employee welfare is recorded through current profit or loss or relevant asset cost based on the actual amount upon occurrence. Non-monetary employee welfare will be measured at fair value.

Social welfare

The Group joins in the social security system for employees established by the government as required, including basic endowment insurance, medical insurance, housing provident fund and other social security systems. During the reporting periods when the employees render services, the social welfare will be recognized as liabilities based on the amount payable and recorded through current profit or loss.

Annuity Plan

In addition to basic endowment insurance, employees of the Bank also participate in the employee retirement benefits plan created by the Bank (hereinafter referred to as "Annuity Plan"). The Bank contributes fund to the Annuity Plan as per a certain percentage of wages, and the contributions are recorded through current profit or loss. The Bank contributes a fixed amount of fund to the Annuity Plan. However, if the Annuity Plan is not sufficient to pay employees' future retirement benefits, the Bank is not obliged to make fund injection.

16. Projected liabilities

If an obligation in connection with contingencies meets the following conditions, the Group will recognize it as a projected liability: (1) The obligation is a current obligation; (2) Performance of the obligation will likely cause outflow of the related economic benefit; (3) The amount of the obligation can be reliably measured.

On the balance sheet date, factors pertaining to a contingency such as risks, uncertainties and time value of money are taken into account, while the contingent liabilities are initially measured at the best estimate of the expenditure required to settle the related present obligation. Where the effect of time value of money is material, the best estimate is determined by discounting the expected future cash flows.

Where all or partial expenses paid for the liquidation of projected liabilities are expected to be compensated by a third party, the compensation can only be separately recognized as an asset when it is basically confirmed to be recoverable. The recognized compensation amount should not exceed the book value of the projected liabilities.

17. Recognition of income

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount can be reliably measured. The specific recognition principles are determined as follows by nature of the revenue:

Interest income and expenses

The interest income and expenses are calculated by the effective interest rate method based on the amortized cost of relevant financial assets and financial liabilities and recorded into current profit or loss.

Fee and commission income and expenses

The fee and commission income and expenses will be recognized on an accrual basis at the time of rendering or receiving services.

18. Government subsidies

Government subsidies refer to the monetary and non-monetary assets that the Group obtains free-of-charge from the Government. Government subsidies can be confirmed when they meet the attached conditions and can be received.

If such subsidies are monetary assets, they shall be measured at the received or receivable amount. Where the subsidies are non-monetary assets, they shall be measured at fair value; if the fair value cannot be obtained in a reliable way, they shall be measured at the nominal amount. The government subsidies, obtained at the nominal amount, shall be directly accounted through profit or loss. Government subsidies can be divided by the targets explicitly set forth by the related government documents into asset-related subsidies and benefit-related subsidies.

The government subsidies related to assets are determined as deferred income, and accounted into profit or loss after they are amortized averagely according to the service life. The government subsidies related to benefit, after covering the relevant expenses or losses in future periods, are determined as deferred income and accounted into profit or loss after the relevant expenses are recognized. If used for covering the already incurred expenses and losses, they shall be directly accounted through profit or loss.

The government subsidies related to the Group's daily activities shall be accounted into other incomes in the light of the economic nature of business. Otherwise, they shall be accounted into non-operating income and expenditure.

Where an already recognized government subsidy needs to be returned, the book balance of related deferred income shall be written down if there is an outstanding deferred income, and the exceeding part shall be accounted through profit or loss; if not, it shall be accounted through profit or loss directly.

19. Income tax

Income tax expense includes the current income tax and the deferred income tax.

Current tax

On the balance sheet date, the income tax liabilities (or assets) that are formed during the current and previous periods shall be measured based on the amount of income tax that should be paid (or rebated) based on the tax law. The taxable income, namely the basis of current tax calculation, is obtained after the pre-tax accounting profit of the period is adjusted pursuant to the tax laws.

Deferred income tax

For the difference between the book value and the tax base of some assets and liabilities and the temporary difference between the book value and tax base of items that are not recognized as assets and liabilities but whose tax base can be determined according to the tax law, the deferred income tax assets and liabilities will be recognized based on the balance sheet liability method.

For taxable temporary differences relating with the initial recognition of goodwill, or the initial recognition of assets or liabilities generated from transactions that are not a business combination and that will not affect the accounting profit and taxable income (or deductible losses), relevant deferred income tax liabilities will not be recognized. In addition, for taxable temporary differences in connection with investments in subsidiaries and associates, if the Group can control the time for the reversal of such temporary differences and the temporary differences are unlikely to be reversed in the foreseeable future, relevant deferred income tax liabilities will not be recognized. Except the above cases, the Group will recognize all deferred income tax liabilities generated from taxable temporary differences.

For deductible temporary differences relating with the initial recognition of assets or liabilities generated from transactions that are not a business combination and that will not affect the accounting profit and taxable income (or deductible losses), relevant deferred income tax liabilities will not be recognized. Besides, for deductible temporary differences in connection with investments in subsidiaries and associates, if temporary differences are not likely to be reversed in the foreseeable future and taxable income is not likely to be obtained in the future to offset deductible temporary difference, relevant deferred income tax assets shall not be recognized. Except the above case, the Group recognizes the deferred income tax assets arising from other deductible temporary difference up to the amount of taxable income that may be obtained in the future to offset the deductible temporary difference.

For deductible losses that could be carried forward to the following years and tax credits, the Group recognizes relevant income tax assets within the limit of future taxable income that is very likely to be obtained by the Group to offset deductible losses and tax credits.

On the balance sheet date, the deferred income tax assets and liabilities are measured based on the tax rate in the expected period to collect the assets or repay the liabilities, according to the tax law.

On the balance sheet date, the book value of the deferred income tax assets will be reviewed. In case that the Group is not likely to obtain adequate amount of taxable income in the future to offset the deferred income tax assets, the book value of the deferred income tax assets will be written down. When the Group is able to obtain an adequate amount of taxable income, the written-down amount will be reversed.

Except that current income tax and deferred income tax relating with transactions or events recognized into other comprehensive income or directly recorded as shareholders' equity are recognized as other comprehensive income or shareholders' equity, and that book value of the goodwill is adjusted for deferred income tax arising from business combination, all the other expenses or income from current income tax and deferred income tax will be recorded through current profit or loss.

Offset of income tax

When the Group has the statutory right to settle on a net basis, or intends either to settle on a net basis or realize assets and repay liabilities at the same time, its current income tax assets and liabilities will be presented by the net amount after offset.

The deferred income tax assets and liabilities of the Group will be presented by the net amount after offset in the case that the Group has the statutory right to settle the current income tax assets and liabilities on a net basis, and the deferred income tax assets and liabilities are related to the income tax levied from a single subject of taxation by a single taxation authority or related to the income tax levied from different subjects of taxation, but the subjects of taxation involved intend to settle the current income tax assets and liabilities on a net basis or realize assets and repay liabilities at the same time during a future period in which a significant deferred income tax asset and liability is reversed.

20. Fiduciary business

Generally, the Group manages assets on behalf of customers as the agent, trustee or other fiduciary capacities in accordance with the agent agreement concluded with securities investment fund, social security fund, insurance company, trust company and other institutions. The Group only provides services and charges fees according to the agent agreement and does not take risks and interests relating with the agency assets. The agency assets will not be recognized in the balance sheet of the Group.

The Group also engages in entrusted loans. The Group grants loans to borrowers as an intermediary based on the borrower, purpose, amount, interest rate and repayment plan determined by the principal, in accordance with the entrusted loan contract. The Group is responsible for granting and collecting entrusted loans and charges fees for services provided, but it does not take risks and interests relating with the entrusted loans. The entrusted loans and entrusted loan assets will not be recognized in the balance sheet of the Group.

21. Leasing

Financial lease is substantially a type of lease where all risks and compensations relating with the assets are transferred. Operating lease includes all leases other than the financial lease.

The Group records operating lease as the leaser

The rental income from operating lease is recognized through current profit or loss in each period of the lease term based on the straight-line method. The initial direct expenses with larger amount are capitalized at occurrence and recorded through current profit or loss over the whole lease period by phase according to the same basis as rental income recognition; other initial direct expenses with smaller amount are recorded through current profit or loss at occurrence. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

The Group records financial lease as the leaser

On the starting date of the financial lease, the sum of the minimum rental income and the initial direct expense will be posted as the financial lease receivable and recorded into loans and advances in the balance sheet. The unsecured balance will be recorded at the same time. The difference between the sum of minimum rental income, initial direct expense and unsecured balance and the present value thereof will be recognized as unrealized financing income. Within the lease period, the current interest income will be recognized based on the effective interest rate method. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

The Group records operating lease as the leasee

The rental expenses for operating lease are recognized as current profit or loss in each period of the lease term based on the straight-line method. Initial direct expenses are recorded through profit or loss. Contingent rentals are recognized into current profit or loss at the time of actual occurrence.

In the case that the leaser offers incentives for the operating lease, all the preferential factors arising from the incentives will be deducted from the rental expenses based on the straight-line method.

V. MAJOR JUDGMENTS MADE IN ACCOUNTING POLICY APPLICATION AND KEY ASSUMPTIONS AND UNCERTAINTIES ADOPTED IN ACCOUNTING ESTIMATION

During the process of applying the accounting policies described in Note IV, the Group needs to make judgments, estimates and assumptions on the book value of statement items that cannot be measured accurately due to the inherent uncertainties of the operating activities. These judgments, estimates and assumptions are made based on the historical experience of the Management of the Group and other relevant factors, and therefore the actual results may be different from the estimates of the Group.

The Group regularly checks the foresaid judgments, estimates and assumptions on an ongoing basis. If the change in accounting estimates only has impact on the current period, it will be recognized in the current period; if it has impact on both the current period and future periods, it will be recognized in the current period and future periods.

On the balance sheet day, the Group needs to make judgments, estimates and assumptions on the amount of items in the financial statements in the following fields:

1. Impairment losses arising from loans and advances to customers and account receivable held for investment

The Group shall recheck the book value of loans and advances to customers and account receivable held for investment on each balance sheet date. If there is objective evidence that one or more events affecting estimated future cash flows of the financial assets occur after the initial recognition of those assets, impairment losses shall be recognized and allowance be set aside. The objective evidence for impairment losses include deteriorated repayment capability of borrowers in the related financial asset portfolio or default of borrowers due to changes in the economic environment of the country or region. Where the individual method is used to assess impairment losses, the Group shall on the sensible and well-established grounds estimate the amount and time of the future cash inflow. If the collective method is used to assess impairment losses, the Group calculates the future cash flows of the portfolio based on the historical experience obtained at the time when assets with similar credit risk features incur losses. The process requires the senior management of the Bank to employ significant judgments and estimations, thus involving fairly great complexity. The Group will regularly review the methods and assumptions used in estimating the amount and time of the future cash flows, to reduce the difference between the estimated impairment losses on loans and the actual losses.

2. Fair value of financial instruments

As for the financial instruments without active market, the Group adopts various valuation methods to determine their fair value. These methods include model analysis of discounting cash flows, option pricing model and other valuation methods (if applicable). In practical application, the models generally use observable data. The Management needs to evaluate such areas as credit risk, market fluctuation and relevance of the Group and counterparties. These changes in related assumptions will influence the fair value of the financial instruments.

3. Held-to-maturity investments

The Group classifies the non-derivative financial assets which have a fixed or determinable recoverable amount and fixed maturity and for which the Group has clear intent and ability to hold to maturity into held-to-maturity investments. Such classification work involves plenty of judgments. During the process of judgment, the Group will assess its willingness and ability to hold such investments to maturity. Except special cases (e.g. selling insignificant amount of investments close to the maturity date), if the Group fails to hold these investments to maturity, all such investments shall be reclassified as available-for-sale financial assets.

4. Impairment of the held-to-maturity investment

The Group depends on the judgments of the Management to a great extent for determining whether the held-to-maturity investments are impaired. The objective evidences for impairment include the situation where the financial assets cannot be traded in the active market and the contract can't be fulfilled (e.g. default on the payment of interest or principal) due to the material financial difficulties of the issuer. During the process of judgment, the Group needs to assess the impact of objective evidences for impairment on the estimated future cash flows of the investment.

5. Impairment of the available-for-sale financial assets

The Group depends on the judgments of the Management to a great extent for determining whether the available-for-sale financial assets are impaired. During the process of judgment, the Group needs to assess the extent to which and the duration when the fair value of the investment is lower than its cost, as well as the financial position and short-term business outlook of the investee, including industry status, technological reform, credit rating, default rate and counterparty's risks.

6. Income tax

In the normal operating activities of the Group, there is uncertainty in the ultimate tax treatment and calculation of some transactions. Whether some items can be disbursed before tax is subject to the approval of the competent taxation authorities. If there is any difference between the ultimate determination result and the initially estimated amount of these tax items, the difference will pose impact on the current income tax and deferred income tax for the ultimate recognition period. At the same time, the Management of the Group needs to estimate the amount of deferred income tax assets that can be reversed in the future.

7. Judgment on control over structured entity

Where the Group serves as the manager or investor of the structured entity, it is necessary to assess whether the Group is the principal or agent so as to decide whether it has control over the structured entity. The Group decides whether it is the principal or agent based on such factors as its decision-making scope as the manager or investor, power of other parties, compensation of management services and the risk exposure of variable income.

8. Derecognition of financial assets

The Group transfers financial assets in its normal operating activities through various methods such as conventional transactions, asset securitization, and repurchase agreements. While determining whether the transferred financial assets can be derecognized entirely, the Group needs to make significant judgments and estimations.

Where financial assets are transferred to special-purpose entities through structured transactions, the Group shall analyze and assess whether its relations with these entities virtually indicate that it exercises the control power over these entities, thus entailing the combination. The decision on combination will determine whether the analysis for derecognition shall occur on the level of combined entities or single entities from which financial assets are transferred.

The Group needs to analyze the rights and obligations relating to the contracted cash flow arising from the transfer of financial assets, and then confirms whether the conditions for derecognition can be met with reference to the following basis:

(1) Assessing the risk relating to ownership of financial assets and the extent to which the compensation can be transferred. While assessing the cash flow before and after the transfer as well as other factors that affect risk and extent of compensation transfer, the Group employs significant accounting estimations and judgments.

(2) Deciding whether to transfer the right to cash flows generated from the related contracts; or whether the cash flows have met the requirements for "pass-through transfer" to an independent third party.

VI. MAJOR CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Changes in accounting policies

The Group adopted the *Accounting Standard for Business Enterprises No.42 – Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations* which was newly released by MOF in 2017 on 28 May 2017, and the *Accounting Standard for Business Enterprises No.16 – Government Subsidies* that was revised by MOF in 2017 on 12 June 2017. Besides, the financial statements were also drafted in line with the *Notice on Revising and Issuing the Format of General Corporate Financial Statements* (C.K. [2017] No.30) (hereinafter referred to as "the No.30 Document") released by MOF on 25 December 2017.

Non-current assets and disposal groups held for sale and discontinued operations

The *Accounting Standard for Business Enterprises No.42 – Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations* offers specific provisions on the classification and measurement of non-current assets or disposal groups held for sale, and stipulates that the profit or loss from ongoing operations or discontinued operations shall be presented on the income statement separately, and that the detailed information of non-current assets or disposal groups held for sale and discontinued operations shall be disclosed in the notes. The standard requires the adoption of prospective application, and has no bearings on the financial statements of comparable years.

Government subsidies

Before executing the *Accounting Standards for Business Enterprises No.16 – Government Subsidies* (revision), the government subsidies related to assets at the Group are determined as deferred income, and accounted into the non-operating income after they are divided averagely according to the service life at the Group. The government subsidies related to benefit, after covering the relevant expenses or losses in future periods, are determined as deferred income and accounted into the non-operating income after the relevant expenses are recognized. If used for covering the already incurred expenses and losses, they shall be directly accounted into the non-operating income.

After executing the *Accounting Standards for Business Enterprises No.16 – Government Subsidies* (revision), the government subsidies related to assets at the Group are determined as deferred income, and accounted through profit or loss after they are divided averagely according to the service life. After covering the relevant expenses and losses in future periods, the government subsidies related to benefit are determined as deferred income and accounted into profit or loss after the relevant expenses or losses are recognized. For relating to the Group's daily activities, the government subsidies shall be accounted into other incomes in the light of the economic nature of business. Otherwise, they shall be accounted into non-operating income.

The Group adopts the prospective application to deal with the aforesaid changes in accounting policies, and such changes have no bearings on the financial statements of comparable years.

Presentation of profit/loss from the disposal of assets

Prior to the release of the No.30 Document, the Group presents and reports under the item of "non-operating income" or "non-operating expenditure" the profits or losses recognized in the sale, disposal or restructuring of the non-current assets classified as held-for-sale (excluding financial instruments, long-term equity investments, and investment properties) as well as the profits or losses generated from the disposal of the fixed assets, construction in progress and intangible assets not classified as held-for-sale. After the release of the No.30 Document, the Group presents and reports under the item of "asset disposal income" the profits or losses recognized in the sale, disposal or restructuring of the non-current assets classified as held-for-sale (excluding financial instruments, long-term equity investments, and investment properties) as well as the profits or losses generated from the disposal of the fixed assets, construction in progress and intangible assets not classified as held-for-sale. For the changes in the presentation of the above items, the Group adopts the retrospective adjustment method for accounting treatment, and adjusts the comparable data of last year accordingly.

VII. MAJOR ITEMS

1. Enterprise income tax

Subjects of taxation of the Group pay the enterprise income tax at 25% of the taxable income pursuant to the *Enterprise Income Tax Law of the People's Republic of China.*

2. VAT

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation jointly released the *Notice on Expanding the Pilot Program of Replacing Business Tax with VAT* (C.SH. [2016] No.36), requiring that the pilot program should be implemented across the board and across the country from 1 May 2016. All business taxpayers of construction, real estate, finance, life services and other sectors are included to the pilot scope, thus paying VAT instead of business tax. Since 1 May 2016, the Group has paid VAT instead of business tax.

Huaxia Financial Leasing Co., Ltd., a subsidiary of the Group, has been a pilot enterprise for the trial implementation of replacing business tax with VAT in Kunming. As of 1 August 2013, the company has been paid VAT for tangible personal property at the rate of 17% and for advisory services at the rate of 6%.

3. Urban maintenance and construction tax

The Group calculates and pays the urban maintenance and construction tax at 5% or 7% of the business tax and VAT.

4. Education fee and surcharges

The Group calculates and pays the education fee and surcharges at 3% of the business tax and VAT.

VIII. BUSINESS COMBINATION AND CONSOLIDATED FINANCIAL STATEMENTS

Subsidiaries acquired through establishment or investment as at 31 December 2017 are as follows:

Name	Date of establishment	Register place	Registered capital/ paid-in capital	Shareholding percentage	Voting rights percentage	Minority interests	Business nature
			RMB millions	(%)	(%)	RMB millions	
Beijing Daxing Hua Xia Rural Bank Co., Ltd.	2010	Beijing	125	80.00	80.00	25	Bank
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	2011	Kunming	50	70.00	70.00	20	Bank
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	2011	Jiangyou	50	70.00	70.00	30	Bank
Huaxia Financial Leasing Co., Ltd.	2013	Kunming	6,000	82.00	82.00	1,368	Financial leasing

For details on structured entities included in consolidated scope of the Group, please see Note XIV. Structured Entities.

XI. NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Cash on hand and balances with central banks

		The Group		The Bank	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
Cash on hand		2,598	3,210	2,587	3,200
Statutory reserves with central banks	(1)	203,074	193,636	202,903	193,462
Excess reserves with central banks	(2)	17,665	22,692	17,392	22,159
Other balances with central banks	(3)	2,500	2,635	2,500	2,635
Total		**225,837**	**222,173**	**225,382**	**221,456**

(1) The Group deposits statutory reserves for general deposits with PBOC as required. The percentage of reserves is specified below:

	31 December 2017	31 December 2016
RMB:		
The Bank	14.50%	14.50%
Beijing Daxing Hua Xia Village Bank Co., Ltd.	9.00%	9.00%
Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	9.00%	9.00%
Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	8.00%	8.00%
Foreign currency:	5.00%	5.00%

(2) Excessive reserves with the central bank refer to the funds placed by the Group with the central bank in addition to the statutory reserves to ensure the normal withdrawal of deposits and business operations.

(3) Other funds placed with the central bank are deemed as fiscal deposits and exchange risk reserve at the central bank, and PBOC pays no interest for the fiscal deposits and exchange risk reserve.

2. Due from banks

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Due from domestic banks and other financial institutions	50,200	128,385	49,161	128,268
Due from overseas banks and other financial institutions	6,710	5,452	6,710	5,452
Less: Allowance for impairment losses on due from banks and other financial institutions				
Individual assessment	(5)	(5)	(5)	(5)
Collective assessment	(39)	(52)	(39)	(52)
Book value of due from banks and other financial institutions	**56,866**	**133,780**	**55,827**	**133,663**

3. Placements with banks and other financial institutions

	The Group and the Bank	
	31 December 2017	31 December 2016
Placements with domestic banks and other financial institutions	5,070	15,640
Placements with overseas banks and other financial institutions	–	28
Placements with other domestic financial institutions	10,261	316
Less: Individual assessment on allowance for impairment losses on placements with banks and other financial institutions	(111)	(116)
Book value of placements with banks and other financial institutions	**15,220**	**15,868**

4. Financial assets at fair value through profit or loss

Held-for-trading financial assets

	The Group and the Bank	
	31 December 2017	31 December 2016
Bonds of public entities and quasi-governments	92	831
Bonds of financial institutions	1	1
Corporate bonds	2,573	4,107
Funds	540	–
Total	**3,206**	**4,939**

5. Derivative financial instruments

Non-hedging instruments:

	The Group and the Bank		
	31 December 2017		
		Fair value	
	Contractual/ nominal principal	Assets	Liabilities
Foreign exchange forwards	15,607	261	148
Foreign exchange swaps	692,666	2,986	1,538
Option contracts	19,300	9	10
Option contracts	23	–	–
Total		**3,256**	**1,696**

	The Group and the Bank		
	31 December 2016		
		Fair value	
	Contractual/ nominal principal	Assets	Liabilities
Foreign exchange forwards	14,437	30	134
Foreign exchange swaps	498,404	758	944
Option contracts	12,500	15	15
Total		**803**	**1,093**

Contractual/nominal amount refers to the unfinished trade volume on the balance sheet date instead of the risk amount.

6. Financial assets held under resale agreements

	The Group and the Bank	
	31 December 2017	31 December 2016
Bonds	39,373	120,666
Bills	830	1,366
Total	**40,203**	**122,032**

7. Interest receivable

	The Group		The Bank	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Interest of loans and advances to customers	6,592	5,661	6,562	5,650
Interest of held-to-maturity investment	5,127	3,631	5,127	3,631
Interest of investments classified as receivables	1,734	2,131	1,733	2,131
Interest of available-for-sale financial assets	1,275	1,407	1,275	1,407
Interest of deposits and placements with banks and other financial institutions	577	787	576	787
Interest of financial assets measured at fair value through profit or loss	35	71	35	71
Interest of financial assets under reverse repurchase agreements	22	119	22	119
Total	**15,362**	**13,807**	**15,330**	**13,796**

8. Loans and advances

(1) The Loans and advances are distributed to corporate and personal customers as follows:

	The Group		The Bank	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Corporate loans and advances	1,070,935	970,996	1,015,023	925,283
Of which: Loans	1,052,242	940,878	996,332	895,165
Bill of exchange	2,186	2,659	2,186	2,659
Discounting	16,507	27,459	16,505	27,459
Personal loans and advances	323,147	245,658	322,393	245,114
Of which: Housing mortgage	150,353	123,841	150,347	123,836
Credit Cards	117,966	78,877	117,966	78,877
Others	54,828	42,940	54,080	42,401
Total loans and advances to customers	1,394,082	1,216,654	1,337,416	1,170,397
Less: Allowance for impairment losses on loans and advances	(38,497)	(32,299)	(37,048)	(31,096)
Of Which: Individual assessment	(9,599)	(8,403)	(9,492)	(8,319)
Collective assessment	(28,898)	(23,896)	(27,556)	(22,777)
Total	**1,355,585**	**1,184,355**	**1,300,368**	**1,139,301**

(2) The loans and advances are presented as follows by assessment method:

	The Group					
		Impaired loans and advances identified (ii)				
	Loans and advances for which allowance is set aside based on collective assessment (i)	Collective assessment on allowance for impairment	Individual assessment on allowance for impairment	Sub-total	Total	Percentage of impaired loans and advances identified in total loans and advances
31 December 2017						
Total loans and advances to customers	1,369,485	4,350	20,247	24,597	1,394,082	1.76%
Allowance for impairment losses on loans and advances	(25,368)	(3,530)	(9,599)	(13,129)	(38,497)	
Book value of loans and advances to customers	**1,344,117**	**820**	**10,648**	**11,468**	**1,355,585**	
31 December 2016						
Total loans and advances to customers	1,196,306	2,803	17,545	20,348	1,216,654	1.67%
Allowance for impairment losses on loans and advances	(21,806)	(2,090)	(8,403)	(10,493)	(32,299)	
Book value of loans and advances to customers	**1,174,500**	**713**	**9,142**	**9,855**	**1,184,355**	

	The Bank					
		Impaired loans and advances identified (ii)				
	Loans and advances for which allowance is set aside based on collective assessment (i)	Collective assessment on allowance for impairment	Individual assessment on allowance for impairment	Sub-total	Total	Percentage of impaired loans and advances identified in total loans and advances
31 December 2017						
Total loans and advances to customers	1,312,970	4,349	20,097	24,446	1,337,416	1.83%
Allowance for impairment losses on loans and advances	(24,026)	(3,530)	(9,492)	(13,022)	(37,048)	
Book value of loans and advances to customers	**1,288,944**	**819**	**10,605**	**11,424**	**1,300,368**	
31 December 2016						
Total loans and advances to customers	1,150,168	2,803	17,426	20,229	1,170,397	1.73%
Allowance for impairment losses on loans and advances	(20,687)	(2,090)	(8,319)	(10,409)	(31,096)	
Book value of loans and advances to customers	**1,129,481**	**713**	**9,107**	**9,820**	**1,139,301**	

(i) Referring to loans and advances whose impairment is yet to be identified. The allowance will be set aside by collective method.

(ii) Impaired loans and advances identified include loans whose impairment is objectively evidenced and identified. The allowance for impairment on these loans can be assessed and set aside by individual or collective methods.

(3) Allowance for impairment losses on loans and advances

	The Group					
	2017			2016		
	Individual assessment on allowance for impairment	Collective assessment on allowance for impairment	Total	Individual assessment on allowance for impairment	Collective assessment on allowance for impairment	Total
Balance at the beginning of the year	8,403	23,896	32,299	7,213	20,022	27,235
Charge for the year	11,163	5,255	16,418	8,648	4,763	13,411
Recovery of written-off loans and advances	228	167	395	94	48	142
Transfer-out due to increase of present value	(896)	(47)	(943)	(650)	(37)	(687)
Write-offs in the year	(9,299)	(373)	(9,672)	(6,902)	(900)	(7,802)
Balance at the beginning of the year	**9,599**	**28,898**	**38,497**	**8,403**	**23,896**	**32,299**

	The Bank					
	2017			2016		
	Individual assessment on allowance for impairment	Collective assessment on allowance for impairment	Total	Individual assessment on allowance for impairment	Collective assessment on allowance for impairment	Total
Balance at the beginning of the year	8,319	22,777	31,096	7,212	19,363	26,575
Charge for the year	11,116	5,032	16,148	8,563	4,303	12,866
Recovery of written-off loans and advances	228	167	395	94	48	142
Transfer-out due to increase of present value	(895)	(47)	(942)	(648)	(37)	(685)
Write-offs in the year	(9,276)	(373)	(9,649)	(6,902)	(900)	(7,802)
Balance at the beginning of the year	**9,492**	**27,556**	**37,048**	**8,319**	**22,777**	**31,096**

9. Available-for-sale financial assets

		The Group and the Bank	
		31 December 2017	31 December 2016
Debt instruments			
Government bonds		11,510	13,887
Bonds of public entities and quasi-governments		35,872	38,910
Bonds of financial institutions		17,243	8,168
Corporate bonds		14,993	16,659
Certificates of deposit with banks and other financial institutions		17,601	14,548
Less: Impairment of the available-for-sale financial assets assessed in portfolios		(7)	(2)
Subtotal		97,212	92,170
Funds		13,018	–
Equity instrument	(1)	82	82
Total		**110,312**	**92,252**
Of which,			
Amortized cost of the available-for-sale debt instruments		98,754	92,142
Changes in fair value recorded in other comprehensive income accumulatively		(1,535)	30
Allowance for impairment losses set aside accumulatively		(7)	(2)
Fair value of the available-for-sale debt instruments		**97,212**	**92,170**

(1) As the Group's equity instrument classified as available-for-sale financial assets for accounting has no quotation in the active market and its fair value can't be reliably measured, it is measured at cost.

10. Held-to-maturity investments

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Government bonds	272,173	202,700	272,173	202,700
Bonds of public entities and quasi-governments	60,621	33,448	60,621	33,448
Bonds of financial institutions	57,952	41,130	58,552	41,130
Corporate bonds	3,091	1,000	3,091	1,000
Certificates of deposit with banks and other financial institutions	7,671	67,315	7,671	67,315
Less: Provision for impairment losses arising from the held-to-maturity investment under collective assessment	(15)	–	(15)	–
Total	**401,493**	**345,593**	**402,093**	**345,593**

11. Account receivable held for investment

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Government bonds	202	157	202	157
Bonds of financial institutions	100	1,500	100	1,500
Wealth management products	14,400	76,205	14,400	76,205
Beneficiary rights of assets	71,276	38,287	70,376	37,387
Asset management plan of financial institutions	166,332	82,258	166,332	82,258
Less: Allowance for impairment of investments classified as receivables				
Individual assessment	(312)	(160)	(312)	(160)
Collective assessment	(1,683)	(869)	(1,670)	(869)
Total	**250,315**	**197,378**	**249,428**	**196,478**

12. Long-term equity investments

	The Bank	
	31 December 2017	31 December 2016
Subsidiaries		
– Hua Xia Financial Lease Co., Limited	4,920	2,460
– Beijing Daxing Hua Xia Rural Bank Co., Ltd	100	100
– Kunming Chenggong Hua Xia Rural Bank Co., Ltd.	35	35
– Sichuan Jiangyou Hua Xia Rural Bank Co., Ltd.	35	35
Total	**5,090**	**2,630**

As at 31 December 2017 and 31 December 2016, there was no impairment in the Bank's long-term equity investments.

13. Fixed assets

	The Group				
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Construction-in-process	Total
Original value					
1 January 2017	8,786	6,880	138	1,787	17,591
Acquisition in the year	653	548	5	1,403	2,609
Transfer-in/(transfer-out) of construction-in-process	1,466	–	–	(1,466)	–
Sale/disposal	–	(211)	(3)	–	(214)
31 December 2017	**10,905**	**7,217**	**140**	**1,724**	**19,986**

	The Group				
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Construction-in-process	Total
Accumulative depreciation					
1 January 2017	(1,862)	(4,288)	(69)	–	(6,219)
Charge for the year	(263)	(827)	(13)	–	(1,103)
Sale/disposal	–	197	3	–	200
31 December 2017	**(2,125)**	**(4,918)**	**(79)**	**–**	**(7,122)**
Allowance for impairment losses					
1 January 2017	–	–	–	–	–
31 December 2017	**–**	**–**	**–**	**–**	**–**
Net amount					
1 January 2017	**6,924**	**2,592**	**69**	**1,787**	**11,372**
31 December 2017	**8,780**	**2,299**	**61**	**1,724**	**12,864**

	The Group				
	Houses and buildings	Office supplies and electronic devices	Transportation facilities	Construction-in-process	Total
Original value					
1 January 2017	8,786	6,857	136	1,763	17,542
Acquisition in the year	648	545	5	1,403	2,601
Transfer-in/(transfer-out) of construction-in-process	1,442	–	–	(1,442)	–
Sale/disposal	–	(211)	(3)	–	(214)
31 December 2017	**10,876**	**7,191**	**138**	**1,724**	**19,929**
Accumulative depreciation					
1 January 2017	(1,862)	(4,270)	(69)	–	(6,201)
Charge for the year	(261)	(826)	(12)	–	(1,099)
Sale/disposal	–	197	3	–	200
31 December 2017	**(2,123)**	**(4,899)**	**(78)**	**–**	**(7,100)**
Allowance for impairment losses					
1 January 2017	–	–	–	–	–
31 December 2017	**–**	**–**	**–**	**–**	**–**
Net amount					
1 January 2017	**6,924**	**2,587**	**67**	**1,763**	**11,341**
31 December 2017	**8,753**	**2,292**	**60**	**1,724**	**12,829**

As at 31 December 2017 and 31 December 2016, the Group has several houses and buildings that are in use but whose registration of title is in process. The Management of the Group expects that relevant formalities will neither affect the Group's succession of the asset rights nor cause adverse impact on its operation.

14. Intangible assets

	The Group	The Bank
Original value		
1 January 2017	98	96
Acquisition in the year	2	–
31 December 2017	**100**	**96**
Accumulated amortization		
1 January 2017	(14)	(13)
Charge for the year	(3)	(3)
31 December 2017	**(17)**	**(16)**
Total book value of intangible assets, net		
1 January 2017	84	83
31 December 2017	**83**	**80**
Residual amortization life (year)	**5-33**	**33**

Intangible assets include land use right and use right of computer software systems.

15. Deferred taxation

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deferred income tax assets	6,533	5,984	6,291	5,780

(1) Change in balance of deferred income tax

	The Group		The Bank	
	2017	2016	2017	2016
Balance at the beginning of the year	5,984	4,570	5,780	4,485
Recorded into gain/loss of the year	158	991	120	872
Recorded into other comprehensive income	391	423	391	423
Balance at the beginning of the year	**6,533**	**5,984**	**6,291**	**5,780**

(2) Deferred income tax assets and liabilities

	The Group			
	31 December 2017		31 December 2016	
	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)
Allowance for impairment losses on loans	17,354	4,338	14,022	3,506
Wages set aside but not paid	6,414	1,604	8,002	2,000
Allowance for impairment losses on other assets	2,383	596	1,660	415
Net fair value changes of available – for-sale financial assets	1,535	383	(30)	(8)
Changes in fair value of financial assets measured at fair value through profit or loss and derivative financial instruments	(1,555)	(388)	281	71
Others	2	–	–	–
Subtotal	**26,133**	**6,533**	**23,935**	**5,984**

	The Bank			
	31 December 2017		31 December 2016	
	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred income tax assets/ (liabilities)
Allowance for impairment losses on loans	16,464	4,116	13,288	3,322
Wages set aside but not paid	6,335	1,584	7,920	1,980
Allowance for impairment losses on other assets	2,383	596	1,660	415
Net fair value changes of available -for-sale financial assets	1,535	383	(30)	(8)
Changes in fair value of financial assets measured at fair value through profit or loss and derivative financial instruments	(1,555)	(388)	281	71
Subtotal	**25,162**	**6,291**	**23,119**	**5,780**

16. Other assets

		The Group		The Bank	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
Receivables and payment on account	(1)	5,817	2,968	4,559	2,699
Long-term prepaid expenses		1,402	1,293	1,354	1,260
Repossessed assets to be disposed of	(2)	2,689	1,092	2,689	1,092
Funds to be cleared		1,579	361	1,579	360
Others		305	101	305	15
Total		**11,792**	**5,815**	**10,486**	**5,426**

(1) Receivables and payment on account presented by aging

	The Group							
	31 December 2017				31 December 2016			
Aging	Amount	Percentage (%)	Allowance for bad debts	Net amount	Amount	Percentage (%)	Allowance for bad debts	Net amount
No more than 1 year	5,432	82.17	(104)	5,328	2,804	75.34	(336)	2,468
1 – 2 years (inclusive)	386	5.84	(273)	113	223	5.99	(37)	186
2 – 3 years (inclusive)	147	2.22	(29)	118	61	1.64	(21)	40
Over 3 years	646	9.77	(388)	258	634	17.03	(360)	274
Total	**6,611**	**100.00**	**(794)**	**5,817**	**3,722**	**100.00**	**(754)**	**2,968**

	The Bank							
	31 December 2017				31 December 2016			
Aging	Amount	Percentage (%)	Allowance for bad debts	Net amount	Amount	Percentage (%)	Allowance for bad debts	Net amount
No more than 1 year	4,287	80.24	(101)	4,186	2,528	73.36	(329)	2,199
1 – 2 years (inclusive)	341	6.38	(266)	75	223	6.47	(37)	186
2 – 3 years (inclusive)	69	1.29	(29)	40	61	1.77	(21)	40
Over 3 years	646	12.09	(388)	258	634	18.40	(360)	274
Total	**5,343**	**100.00**	**(784)**	**4,559**	**3,446**	**100.00**	**(747)**	**2,699**

(2) Repossessed assets to be disposed of

	The Group and the Bank	
	31 December 2017	31 December 2016
Housing properties	1,726	1,450
Equity	1,397	36
Others	25	26
Less: Allowance for impairment losses on repossessed assets to be disposed of	(459)	(420)
Net amount	**2,689**	**1,092**

17. Allowance for impairment losses on assets

	The Group 2017						
	Charge/ (reversal) for the year	Transfer-in/ (transfer-out) for the year	Opening balance	Recovery for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks	57	(10)	–	–	–	(3)	44
Placements with banks and other financial institutions	116	–	–	–	–	(5)	111
Loans and advances	32,299	16,418	(943)	395	(9,672)	–	38,497
Account receivable held for investment	1,029	981	(15)	–	–	–	1,995
Available-for-sale financial assets	2	5	–	–	–	–	7
Held-to- maturity investments	–	15	–	–	–	–	15
Others	1,174	180	(40)	–	(55)	(4)	1,255
Total	**34,677**	**17,589**	**(998)**	**395**	**(9,727)**	**(12)**	**41,924**

	The Group 2016						
	Charge/ (reversal) for the year	Transfer-in/ (transfer-out) for the year	Opening balance	Recovery for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks	75	(23)	–	–	–	5	57
Placements with banks and other financial institutions	114	(3)	–	–	–	5	116
Loans and advances	27,235	13,411	(687)	142	(7,802)	–	32,299
Account receivable held for investment	883	170	–	–	(24)	–	1,029
Available-for-sale financial assets	200	2	(200)	–	–	–	2
Others	736	308	175	–	(50)	5	1,174
Total	**29,243**	**13,865**	**(712)**	**142**	**(7,876)**	**15**	**34,677**

	The Bank						
	2017						
	Charge/ (reversal) for the year	Transfer-in/ (transfer-out) for the year	Opening balance	Recovery for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks	57	(10)	–	–	–	(3)	44
Placements with banks and other financial institutions	116	–	–	–	–	(5)	111
Loans and advances	31,096	16,148	(942)	395	(9,649)	–	37,048
Account receivable held for investment	1,029	968	(15)	–	–	–	1,982
Available-for-sale financial assets	2	5	–	–	–	–	7
Held-to- maturity investments	–	15	–	–	–	–	15
Others	1,167	176	(40)	–	(55)	(3)	1,245
Total	**33,467**	**17,302**	**(997)**	**395**	**(9,704)**	**(11)**	**40,452**

	The Bank						
	2016						
	Charge/ (reversal) for the year	Transfer-in/ (transfer-out) for the year	Opening balance	Recovery for the year	Write-offs for the year	Change in exchange rate	Ending balance
Due from banks	75	(23)	–	–	–	5	57
Placements with banks and other financial institutions	114	(3)	–	–	–	5	116
Loans and advances	26,575	12,866	(685)	142	(7,802)	–	31,096
Account receivable held for investment	883	170	–	–	(24)	–	1,029
Available-for-sale financial assets	200	2	(200)	–	–	–	2
Others	736	301	175	–	(50)	5	1,167
Total	**28,583**	**13,313**	**(710)**	**142**	**(7,876)**	**15**	**33,467**

18. Due to central banks

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Mid-term credit facility	116,000	108,000	116,000	108,000
Others	19	5	–	–
Total	**116,019**	**108,005**	**116,000**	**108,000**

Mid-term credit facility refers to the monetary policies tools issued by PBOC to commercial banks and policy banks by means of pledge. At the end of 2017, the Bank held mid-term credit facilities for twelve months at the interest rate of 3.10% – 3.25% which was pledged with its bonds worth of RMB129,086 million. At the end of 2016, the Bank held mid-term credit facilities for six – twelve months at the interest rate of 2.85% – 3.25% which was pledged with its bonds worth of RMB122.68 billion.

19. Due to banks and other financial institutions

	The Group		The Bank	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Due to domestic banks	60,209	89,006	60,695	89,985
Due to overseas banks	1,001	579	1,001	579
Due to other domestic financial institutions	170,146	135,548	170,478	135,647
Total	**231,356**	**225,133**	**232,174**	**226,211**

20. Placements from banks and other financial institutions

	The Group		The Bank	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2017**
Placements from domestic banks	62,067	72,571	20,699	36,818
Placements from overseas banks Placements from other domestic	1,978	559	1,978	559
financial institutions	1,000	–	–	–
Total	**65,045**	**73,130**	**22,677**	**37,377**

21. Financial assets sold under repurchase agreements

	The Group and the Bank	
	31 December 2017	**31 December 2016**
Bonds	69,946	106,462
Bills	56	234
Total	**70,002**	**106,696**

For details on the Group's assets taken as collateral for repurchase, please see Note XII-6 Collateral.

22. Deposits taken

		The Group		The Bank	
		31 December 2017	31 December 2016	31 December 2016	31 December 2017
Demand deposits					
Corporate deposits		625,894	560,322	628,049	558,977
Personal deposits		114,978	114,459	114,790	114,305
Time deposits					
Corporate deposits		393,647	404,577	393,192	404,434
Personal deposits		132,356	125,074	131,763	124,571
Security deposit received	(1)	127,459	152,332	127,327	152,195
Structured deposits		34,502	8,263	34,502	8,263
Outward remittances and remittances outstanding		5,045	3,206	5,034	3,196
Others		26	67	26	67
Total		**1,433,907**	**1,368,300**	**1,434,683**	**1,366,008**

(1) Security deposit received is presented by item as follows:

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Security deposit for bank	98,300	123,031	98,236	122,945
Security deposit for L/C issuance	13,669	12,060	13,669	12,060
Security deposit for L/G issuance	3,914	4,100	3,909	4,100
Other security deposits	11,576	13,141	11,513	13,090
Total	**127,459**	**152,332**	**127,327**	**152,195**

23. Accrued payroll

	The Group			
	2017			
	Opening balance	**Increase over the year**	**Decrease over the year**	**Ending balance**
Salaries and bonuses	8,002	8,080	(9,668)	6,414
Employee welfare	–	373	(373)	–
Social insurance	59	1,976	(1,986)	49
Housing provident fund	13	770	(770)	13
Labor union funds and employee education expense	77	253	(277)	53
Others	6	746	(746)	6
Total	**8,157**	**12,198**	**(13,820)**	**6,535**

	The Group			
	2016			
	Opening balance	**Increase over the year**	**Decrease over the year**	**Ending balance**
Salaries and bonuses	7,356	9,390	(8,744)	8,002
Employee welfare	–	369	(369)	–
Social insurance	42	1,806	(1,789)	59
Housing provident fund	23	739	(749)	13
Labor union funds and employee education expense	100	282	(305)	77
Others	4	674	(672)	6
Total	**7,525**	**13,260**	**(12,628)**	**8,157**

	The Bank			
	2017			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Salaries and bonuses	7,920	7,954	(9,539)	6,335
Employee welfare	–	369	(369)	–
Social insurance	49	1,959	(1,966)	42
Housing provident fund	13	763	(763)	13
Labor union funds and employee education expense	70	248	(274)	44
Others	–	744	(744)	–
Total	**8,052**	**12,037**	**(13,655)**	**6,434**

	The Bank			
	2016			
	Opening balance	Increase over the year	Decrease over the year	Ending balance
Salaries and bonuses	7,293	9,286	(8,659)	7,920
Employee welfare	–	360	(360)	–
Social insurance	37	1,789	(1,777)	49
Housing provident fund	23	735	(745)	13
Labor union funds and employee education expense	95	277	(302)	70
Others	–	671	(671)	–
Total	**7,448**	**13,118**	**(12,514)**	**8,052**

The Group joins in the endowment insurance and unemployment insurance programs set up by the Government and also establishes the enterprise annuity scheme. According to these plans, it makes contributions to each of them monthly at a designated ratio of employee salary. On top of the monthly contribution, the Group takes no further payment obligations. The corresponding expenditures are accounted through profit or loss at the time of actual occurrence.

24. Taxes and dues payable

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Enterprise income tax	4,535	4,147	4,463	4,020
VAT	990	985	980	976
Others	354	322	348	317
Total	**5,879**	**5,454**	**5,791**	**5,313**

25. Interest payable

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Interest of deposits from customers	10,277	11,244	10,123	11,142
Interest of debt obligations payable	2,494	1,419	2,494	1,419
Interest of due to central banks	1,559	902	1,559	902
Interest of due from banks and other financial institutions	1,093	711	1,097	713
Interest of placements from banks and other financial institutions	343	301	56	40
Interest of financial assets under repurchase agreements	117	78	117	78
Total	**15,883**	**14,655**	**15,446**	**14,294**

26. Debt obligations payable

		The Group and the Bank	
		31 December 2017	31 December 2016
Bonds payable			
Mixed capital bonds	(1)	–	4,000
Financial bonds	(2)	62,000	41,000
Tier-2 capital bonds	(3)	40,000	10,000
Subtotal		102,000	55,000
Certificates of deposit with banks and other financial institutions	(4)	267,689	213,184
Total		**369,689**	**268,184**

(1) Mixed capital bonds

As approved by the CBRC and PBOC, the Bank issued RMB4 billion of mixed capital bonds from 26 to 27 June 2007. The bonds have a term of 15 years; and the issuer has one option to redeem all or part of the bonds at face value at the end of the tenth year to the maturity.

This issue of the bonds consists of RMB2.4 billion with a fixed interest rate and RMB1.6 billion with floating interest rates; the initial issuing interest rate of the bonds with a fixed interest rate as determined through bookkeeping files is 5.89% and the initial interest margin of the bonds with floating interest rates is 2%.

The interest of the bonds with a fixed interest rate is paid on an annual basis. In case that the issuer does not exercise the advance redemption option on the last day of the tenth year, commencing from the 11th interest accrual year, the interest of the bonds shall increase by 300BPs on the basis of the initial issuing interest rate to 8.89%.

The annual interest rate of the bonds with floating interest rates is the sum of the benchmark interest rate and the basic interest margin. This benchmark interest rate is determined based on the interest rate of the one-year time savings deposits for lump-sum withdrawal published by PBOC applicable to the first issuing date and the value date of other interest accrual years. The basic interest margin of the first ten years is 2%. In case that the issuer does not exercise the advance redemption option on the last day of the tenth year, commencing from the 11th interest year, the interest of the bonds shall increase by 100BPs on the basis of the initial issuing interest margin to 3%.

The value date of the bond was 27 June 2007. The Bank exercised the right of redemption on 27 June 2017, and redeemed RMB4 billion.

(2) Financial bonds

(i) As approved by the National Development and Reform Commission (NDRC) and PBOC, the Bank issued three-year offshore advanced RMB bonds on 30 June 2014 in Hong Kong Special Administration Region of People's Republic of China, involving the size of RMB1 billion. The bonds have a term of three years and the coupon rate is fixed at 4.95% and the interest will be paid semiannually. The value date is 30 June 2014 and the maturity date is 30 June 2017.

(ii) As approved by the CBRC and PBOC, the Bank issued the financial bonds of Hua Xia Bank Co., Ltd. for 2016 from 3 to 7 March 2016 and the issuance volume was RMB40 billion. This issue of bonds has two types. The type one bonds have an issuance volume of RMB15 billion with a term of three years. The coupon rate is fixed at 3.03%, and the interest will be paid annually. The value date is 7 March 2016, and the maturity date is 7 March 2019. The type two bonds have an issuance volume of RMB25 billion with a term of five years. The coupon rate is fixed at 3.25%, and the interest will be paid annually. The value date is 7 March 2016, and the maturity date is 7 March 2021.

(iii) As approved by the CBRC and PBOC, the Bank issued the phase 1 financial bonds of Hua Xia Bank Co., Ltd. for 2017 from 1 to 5 September 2017 and the issuance volume was RMB22 billion. The bonds have a term of three years and the coupon rate is fixed at 4.30% and the interest will be paid annually. The value date is 5 September 2017 and the maturity date is 5 September 2020.

(3) Tier-2 capital bonds

(i) As approved by the CBRC and PBOC, the Bank issued the tier-2 capital bonds of Hua Xia Bank Co., Ltd. for 2014 from 24 to 25 July 2014 and the issuance volume was RMB10 billion. The bonds are 10-year bonds at a fixed interest rate, and at the end of the fifth year the issuer may exercise the redemption option to redeem all or part of bonds at face value.

The coupon rate is fixed at 6.14% and the interest will be paid annually. The value date is 25 July 2014 and the maturity date is 25 July 2024. If the issuer does not exercise its redemption right, the interest period of the bonds ranges between 25 July 2014 and 24 July 2024. If the issuer does exercise the redemption right, the interest period of the bonds for the part redeemed ranges between 25 July 2014 and 24 July 2019.

(ii) As approved by the CBRC and PBOC, the Bank issued the first tier-2 capital bonds of Hua Xia Bank Co., Ltd. for 2017 on 26 May 2017, and the issuance volume was RMB30 billion. The bonds are 10-year bonds at a fixed interest rate, and at the end of the fifth year the issuer may exercise the redemption option to redeem all or part of bonds at face value.

The coupon rate is fixed at 4.80% and the interest will be paid annually. The value date is 26 May 2017. If the issuer does not exercise its redemption right, the interest period of the bonds ranges between 26 May 2017 and 25 May 2027. If the issuer does exercise the redemption right, the interest period of the bonds for the part redeemed ranges between 26 May 2017 and 25 May 2022.

(4) Certificates of deposit with banks and other financial institutions

As at 31 December 2017, there were 219 outstanding certificates of deposit with banks and financial institutions with the total face value of RMB270,510 million and terms of 1 month to 3 years. Except three types of certificates of deposit with banks and other financial institutions, whose interests are paid quarterly, are issued at floating interest rates, all the other types are issued in discount.

27. Other liabilities

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Agency collection for asset securitization business	8,568	15,140	8,568	15,140
Security deposit for financial lease	3,829	3,937	–	–
Deferred income	2,294	1,823	712	538
On-lending	1,869	1,310	1,869	1,310
Funds to be settled and cleared payable	1,078	649	1,078	649
Others	5,780	1,596	1,881	1,248
Total	**23,418**	**24,455**	**14,108**	**18,885**

28. Share capital

	31 December 2017		31 December 2016	
	Total number of shares (million)	Nominal amount	Total number of shares (million)	Nominal amount
A shares with par value of RMB1 per share registered, issued and paid in full amount	12,823	12,823	10,686	10,686

Notes: A shares refer to ordinary shares domestically offered, and subscribed and traded in Renminbi.

As of 31 December 2017, the Bank had no shares subject to restrictions on sales (as of 31 December 2016, the Bank had no shares subject to restrictions on sales).

In accordance with the plan for profit distribution and conversion of capital reserve to share capital for 2016 which was approved on the Shareholders' General Meeting on 24 May 2017, the Bank on 29 June 2017 converted the capital reserve into share capital at a ratio of 2 for 10 shares on the basis of 10,685,572,211 shares as at 31 December 2016 held by all ordinary shareholders whose names appeared on the share register by the equity registration date (28 June 2017). After the conversion, the total ordinary shares of the Bank increased by 2,137,114,442 shares to 12,822,686,653 shares, and it had specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership), with the Capital Verification Report (D.SH.B.(Y).Z. (17) No. 00366).

29. Other equity instruments

On 23 February 2016, the Bank was approved by the CBRC to privately issue up to 200 million domestic preference shares and the par value of each shares is RMB100. The offering of preference shares valuing RMB20 billion was completed in March 2016, and the payment of the proceeds has been specially verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership).

Information on outstanding preference shares at the year end:

Outstanding financial instrument	Issuing time	Accounting category	Dividend rate	Issuing price	Number	Amount	Maturity date	Share conversion condition	Conversion
				RMB/share	Million shares	RMB millions			
Preference shares	March 2016	Equity instrument	Note 1	100	200	20,000	No maturity day	Note 2	No conversion

Note 1: These preference shares were issued at a dividend rate which can be adjusted for several periods. Every five years is an interest period from the payment deadline, and the dividend rate remains the same in each interest period. The dividend rate for the first interest period was determined as 4.20% by the Board of Directors of the Bank authorized by the Shareholders' General Meeting after taking into account the national policies, market conditions, specific conditions of the Bank, the demands of investors, etc. by way of inquiry. The coupon dividend rate of preference shares was no higher than the annual ROE of the Bank in the latest two accounting years. The coupon dividend rate consists of benchmark interest rate and fixed premium. The benchmark interest rate is the arithmetic mean (rounded to 0.01%) of the five-year treasury bonds' yield rate in yield rate curve of the Chinese interbank fixed rate treasury bonds published by ChinaBond. com (or other website recognized by the China Government Securities Depository Trust & Clearing Co., Ltd.) for 20 trading days before the deadline for payment of these preference shares (28 March 2016) or the adjustment day of benchmark interest rate (i.e. the day when five years passes after the payment deadline, March 28) (excluding the day), and it will be adjusted every five years from the deadline for payment of the preference shares. The fixed premium was determined as 1.61% which was the dividend rate of the first interest period 4.20% deducted by the benchmark interest rate 2.59%, and will not be adjusted. If the five-year treasury bonds' yield rate is not accessible in the future on the adjustment day of benchmark interest rate, the benchmark interest rate or its determination principle will be determined upon negotiation between the company and preference shareholders as required by the regulator.

Note 2: (1) When the trigger event of other tier-1 capital instruments takes place, i.e. the core tier- 1 capital adequacy ratio becomes as low as 5.125% (or below), the Bank is entitled to convert the existing preference shares issued this time to ordinary shares based on the total par value at that time without the approval of preference shareholders so as to recover the Bank's core tier-1 capital adequacy ratio to 5.125%. If some preference shares are converted, the preference shares issued this time will be converted based on the same ratio and under the same conditions. If the preference shares are converted to ordinary shares, they will not be converted back under any conditions.

(2) When the trigger event of tier-2 capital instruments takes place, the Bank is entitled to convert all the existing preference shares issued this time to ordinary shares based on the total par value at that time without the approval of preference shareholders. If the preference shares are converted to ordinary shares, they will not be converted back under any conditions. The trigger event of tier- 2 capital instruments is the earlier one in: (1) the CBRC determines that the Bank will not survive if it does not conduct share conversion or write-down and (2) the relevant authorities determine that the Bank will not survive if it does not obtain capital injection from the public sector or the support with the same effect.

Main provisions:

The Bank will pay the dividend of the preference shares with cash. The dividends of preference shares issued this time will not be accumulated, i.e. the dividends which are not distributed in full to their shareholders will not be accumulated to those which will be distributed for the next interest period, and such act will not constitute breach of contract. The shareholders of the preference shareholders issued this time will not participate in the distribution of residue profits along with ordinary shareholders after being paid the dividends as per the coupon dividend rate.

Subject to ensuring the capital adequacy ratio satisfy the regulatory requirements, the Bank may distribute dividends to preference shareholders if there are after-tax profit after it replenish losses and appropriates legal reserve and general reserve. The dividends of preference shares will be distributed later than that of ordinary shares, and their payment is not linked to the rating of the Bank, and will not be adjusted along with the changes in rating. With approval of the Shareholders' General Meeting, the Bank is entitled to cancel the dividend distribution of the preference shares issued this time in whole or in part under any circumstances, and such act does not constitute breach of contract. The Bank may repay other matured debts with the profit which is canceled to pay dividends at its own discretion. Canceling dividend distribution will not restrict the Bank from any acts except distributing dividends to ordinary shareholders. When exercising the above rights, the Bank will fully consider the rights and interests of preference shareholders. If the Bank decides to cancel the payment of dividends to preference shareholders, it will notify them at least ten working days before the dividend payment day. If it decides to cancel the dividend payment of these preference shares in whole or in part, the Bank will not distribute dividends to ordinary shareholders before the declaration and distribution of dividends of the preference shares.

The redemption right of these preference shares is vested in the Bank. The approval of the CBRC is the prerequisite to the exercising of this right. The preference shareholders have no right to request the Bank to buy back the preference shares, and should not hold the expectation that the preference shares may be bought back by the Bank. These preference shares are not subject to a put-back provision, i.e. the preference shareholders have no right to sell their preference shares back to the Bank.

The price of initial forced conversion is the average trading price of ordinary shares of the Bank 20 trading days before the day of announcement on the resolution of the Board of Directors which reviews the issuance of the preference shares issued this time (17 April 2015), i.e. RMB14/share. Since the day when the Bank's Board of Directors approves the plan on the issuance of the preference shares, if any changes in the Bank's shares take place as a result of the Bank's distribution of stock dividends, conversion into share capital, issuance of new shares (excluding the share capital increase due to conversion of financing instruments with provision for the possibility of conversion into ordinary shares, such as preference shares, convertible bank bonds, etc.), allotment of shares, the price of forced share conversion will be adjusted one by one, and relevant information disclosure will be conducted as required.

Preference shareholders of the Bank take precedence over ordinary shareholders to be distributed the residual properties of the Bank. That is, when the Bank liquidates, the total carrying amount of preference shares that have been issued and are still in existence as well as dividends that have been announced to distributed but not been paid for the period shall be paid firstly to preference shareholders; if not sufficient to pay, such dividends and carrying amount will be paid on the basis of the shareholding ratio of preference shareholders.

As of 31 December 2017, the net funds of RMB19,978 million raised by the Bank were all used for replenishing tier-1 capital.

Information on outstanding preference shares:

	1 January 2017		Increase over the year		Decrease over the year		31 December 2017	
	Number	Book value	Number	Book value	Number	Book value	Number	Book value
	1 million share	RMB1 million	1 million share	RMB1 million	1 million share	RMB1 million	1 million share	RMB1 million
Preference share	200	20,000	–	–	–	–	200	20,000
Issuing cost		(22)						(22)
Total other equity instruments	**200**	**19,978**					**200**	**19,978**

Information

	31 December 2017	31 December 2016
	RMB1 million	RMB1 million
Equity attributable to parent company		
Equity attributable to ordinary shareholders of parent company	148,077	132,206
Equity attributable to other shareholders of parent company	19,978	19,978
Of which: Net profit	840	–
Distributed profit for the period	(840)	–
Equity attributable to minority shareholders	1,443	789
Total shareholders' equity	**169,498**	**152,973**

30. Capital reserve

	The Group			
	2017			
	Opening balance	**Increase over the year**	**Decrease over the year**	**Ending balance**
Capital premium	28,761	–	(2,137)	26,624
Investment by minority shareholders at premium	1	–	–	1
Total	**28,762**	**–**	**(2,137)**	**26,625**

	The Group			
	2016			
	Opening balance	**Increase over the year**	**Decrease over the year**	**Ending balance**
Capital premium	28,761	–	–	28,761
Investment by minority shareholders at premium	1	–	–	1
Total	**28,762**	**–**	**–**	**28,762**

	The Bank			
	2017			
	Opening balance	**Increase over the year**	**Decrease over the year**	**Ending balance**
Capital premium	28,761	–	(2,137)	26,624

	The Bank			
	2016			
	Opening balance	**Increase over the year**	**Decrease over the year**	**Ending balance**
Capital premium	28,761	–	–	28,761

31. Surplus reserve

	The Group and the Bank	
	31 December 2017	31 December 2016
Statutory surplus reserve	11,592	9,660
Discretionary surplus reserve	111	111
Total	**11,703**	**9,771**

(1) According to relevant laws of the People's Republic of China, the Bank must appropriate statutory surplus reserve at 10% of the net profit based on the PRC GAAP until the statutory surplus reserve accumulated to 50% of the share capital. After the statutory surplus reserve is appropriated, the Bank can determine its amount of discretionary surplus reserve on its own upon approval by the Shareholders' General Meeting.

(2) As at 31 December 2017, statutory surplus reserve accumulatively appropriated by the Bank had exceeded 50% of the share capital and the statutory surplus reserve in excess of 50% shall be subject to approval by the Shareholders' General Meeting.

(3) For details on surplus reserve, please refer to Note IX-33 Retained Profit.

32. General risk reserve

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
General risk reserve	30,055	24,605	29,467	24,269

As of 1 July 2012, the Bank has set aside general reserve in accordance with the Administrative Measures for Reserve Provisioning of Financial Enterprises (C.J. [2012] No. 20). The general reserve is treated as profit distribution and its balance shall not be lower than 1.5% of the ending balance of risk assets in principle. It shall be in place within 5 years as of 1 July 2012.

For details on surplus reserve, please refer to Note IX-33 Retained Profit.

According to the regulatory rules, some subsidiaries of the Bank should appropriate certain amount from the net profit as general reserve. Such general reserve is treated as profit distribution.

33. Retained profit

(1) Profit distribution for 2017

The profit distribution plan for 2017 that is passed by the Board of Directors and submitted to the Shareholders' General Meeting for approval on 18 April 2018 is as follows:

(i) Set aside statutory surplus reserve of RMB1,932,134,408 based on the Bank's net profit for 2017 which is RMB19,321,344,083;

(ii) Set aside general reserve of RMB1,551,767,660, after which the Bank's balance of general reserve reaches 1.5% of the outstanding risk assets on 31 December 2017;

(iii) Distribute dividends to all ordinary shareholders at the rate of RMB1.51 (pre-tax) per 10 shares, totaling RMB1,936,225,685, based on the Bank's total ordinary share capital of 12,822,686,653 shares at the end of 2017.

The above profit distribution plan is subject to approval by the Bank's Shareholders' General Meeting. Before that, accounting treatment is not made to the proposed surplus reserve, general reserve and dividend distribution.

(iv) The interest accrual period for preference shares issued in 2016 is from 28 March 2017 and 27 March 2018 (at an annual dividend rate of 4.20%), and the dividends payable for these preference shares are RMB840 million.

The above plan for distribution of dividends of preference shares was approved by the Board of Directors on 16 March 2018.

(2) Profit distribution for 2016

The Bank has implemented the profit distribution plan for 2016 that was approved by the Shareholders' General Meeting on 24 May 2017 and announced by the Bank on 23 June 2017. Particulars are as follows:

(i) Set aside statutory surplus reserve of RMB1,932,263,340 based on the Bank's net profit for 2016 which is RMB19,322,633,403; such statutory surplus is recorded in the bank and consolidated balance sheet dated 31 December 2017 as a subsequent event;

(ii) Set aside general reserve of RMB5,198,239,240, after which the Bank's balance of general reserve reaches 1.5% of the outstanding risk assets on 31 December 2016; such general reserve has been recorded in the bank and consolidated balance sheet dated 31 December 2017.

(iii) Distribute dividends to all ordinary shareholders at the rate of RMB1.81 (pre-tax) per 10 shares, totaling RMB1,934,088,570, based on the Bank's total ordinary share capital of 10,685,572,211 shares at the end of 2016. The aforesaid dividends have been distributed in 2017.

(iv) Convert the share capital reserve into share capital at a ratio of 2 for 10 shares on the basis of 10,685,572,211 shares at 31 December 2016, which increases the registered capital by RMB2,137,114,442. Afterwards, the total ordinary share capital records 12,822,686,653, equivalent to RMB12,822,686,653; such conversion is recorded in the bank and consolidated balance sheet dated 31 December 2017.

(v) The interest accrual period for preference shares issued in 2016 is from 28 March 2016 and 27 March 2017 (at an annual dividend rate of 4.20%), and the dividends payable for these preference shares are RMB840 million. The aforesaid dividends have been distributed in 2017.

(3) Profit distribution for 2015

The Bank has implemented the profit distribution plan for 2015 that was approved by the Shareholders' General Meeting on 13 May 2016 and announced by the Bank on 2 July 2016. Particulars are as follows:

(i) Set aside statutory surplus reserve of RMB1,858,117,354 based on the Bank's net profit for 2015 which is RMB18,581,173,539; such statutory surplus is recorded in the bank and consolidated balance sheet dated 31 December 2016 as a subsequent event;

(ii) Set aside general reserve of RMB2,843,306,974, after which the Bank's balance of general reserve reaches 1.5% of the outstanding risk assets on 31 December 2015; such general reserve has been recorded in the bank and consolidated balance sheet dated 31 December 2016.

(iii) Distribute dividends to all shareholders at the rate of RMB3.63 (pre-tax) per 10 shares, totaling RMB3,878,862,713, based on the Bank's total share capital of 10,685,572,211 shares at the end of 2015. The dividends have been distributed in 2016.

34. Net interest income

	The Group		The Bank	
	2017	**2016**	**2017**	**2016**
Interest income				
Loans and advances	62,506	59,990	60,150	57,953
Of which: Corporate loans and advances	50,631	49,433	48,320	47,429
Personal loans and advances	11,658	9,726	11,613	9,693
Discounted bills	217	831	217	831
Held-to- maturity investments	13,380	8,755	13,380	8,755
Account receivable held for investment	12,026	7,258	11,975	7,257
Available-for-sale financial assets	3,615	3,066	3,615	3,066
Balances with central banks	3,383	3,318	3,380	3,316
Due from banks	2,160	1,670	2,150	1,659
Financial assets held under resale agreements	1,687	2,867	1,687	2,867
Placements with banks and other financial institutions	1,275	971	1,260	971
Financial assets measured at fair value through profit or loss	200	347	200	347
Subtotal	**100,232**	**88,242**	**97,797**	**86,191**
Interest expense				
Deposits taken	(20,725)	(22,519)	(20,698)	(22,497)
Debt obligations payable	(13,960)	(6,094)	(13,960)	(6,094)
Due to banks and other financial institutions	(10,157)	(5,685)	(10,195)	(5,715)
Due to central banks	(3,347)	(1,726)	(3,346)	(1,724)
Placements from banks and other financial institutions	(2,374)	(1,808)	(773)	(564)
Financial assets sold under repurchase agreements	(1,782)	(1,413)	(1,782)	(1,413)
Others	(569)	(8)	(550)	(8)
Subtotal	**(52,914)**	**(39,253)**	**(51,304)**	**(38,015)**
Net interest income	**47,318**	**48,989**	**46,493**	**48,176**
Of which, Interest income from impaired financial assets identified	958	728	957	728

35. Net fee and commission income

	The Group		The Bank	
	2017	2016	2017	2016
Fee and commission income				
Bank card business	8,229	4,999	8,229	4,999
Wealth management service	6,981	5,840	6,981	5,840
Credit commitments	1,734	1,460	1,734	1,460
Agency business	1,544	1,838	1,544	1,838
Custody and other fiduciary services	969	890	969	890
Leasing service	522	572	–	–
Other business	468	525	468	524
Subtotal	**20,447**	**16,124**	**19,925**	**15,551**
Fee and commission expenses				
Fee expense	(2,040)	(1,468)	(2,027)	(1,448)
Net fee and commission income	**18,407**	**14,656**	**17,898**	**14,103**

Fee and commission expenses mainly include expenses for UnionPay card services, agency settlement, international agency payment, etc.

36. Investment gains/(losses)

	The Group		The Bank	
	2017	2016	2017	2016
Financial assets measured at fair value through profit or loss	10	38	10	38
Available-for-sale financial assets	4	125	7	125
Held-to-maturity investments	18	–	18	–
Derivative financial instruments	(1,520)	562	(1,520)	562
Others	(39)	(8)	(39)	(8)
Subtotal	**(1,527)**	**717**	**(1,524)**	**717**

37. Gains/(losses) from the changes in fair value

	The Group and the Bank	
	2017	2016
Financial assets at fair value through profit or loss	(14)	(182)
Derivative financial instruments	1,850	(312)
Total	**1,836**	**(494)**

38. Exchange gains

Foreign exchange gains mainly include income from foreign exchange differences and translation differences from foreign currency-denominated currency assets and liabilities.

39. Tax and surcharges

	The Group		The Bank	
	2017	2016	2017	2016
Business tax	–	1,264	–	1,218
Urban maintenance and construction tax	347	308	342	302
Education fee and surcharges	248	220	244	216
Others	159	149	150	144
Total	**754**	**1,941**	**736**	**1,880**

40. General and administrative expenses

		The Group		The Bank	
		2017	2016	2017	2016
Staff remuneration and welfare	(1)	12,198	13,260	12,037	13,118
Business expenses		6,573	5,886	6,537	5,851
Depreciation and amortization		3,107	2,940	3,081	2,909
Total		**21,878**	**22,086**	**21,655**	**21,878**

(1) Staff remuneration and welfare

	The Group		The Bank	
	2017	2016	2017	2016
Salaries and bonuses	8,080	9,390	7,954	9,286
Employee welfare	373	369	369	360
Social insurance	1,976	1,806	1,959	1,789
Housing provident fund	770	739	763	735
Labor union funds and employee education expense	253	282	248	277
Others	746	674	744	671
Total	**12,198**	**13,260**	**12,037**	**13,118**

41. Asset impairment losses

	The Group		The Bank	
	2017	**2016**	**2017**	**2016**
Loans and advances	16,418	13,411	16,148	12,866
Due from banks	(10)	(23)	(10)	(23)
Placements with banks and other financial institutions	–	(3)	–	(3)
Available-for-sale financial assets	5	2	5	2
Held-to- maturity investments	15	–	15	–
Account receivable held for investment	981	170	968	170
Others	180	308	176	301
Total	**17,589**	**13,865**	**17,302**	**13,313**

42. Income tax expense

	The Group		The Bank	
	2017	**2016**	**2017**	**2016**
Current income tax expense	6,478	7,478	6,239	7,211
Deferred income tax expense	(158)	(991)	(120)	(872)
Total	**6,320**	**6,487**	**6,119**	**6,339**

Adjustments to income tax expense and accounting profit are presented as follows:

	The Group		The Bank	
	2017	**2016**	**2017**	**2016**
Pre-tax profit	26,253	26,243	25,440	25,662
Income tax at statutory tax rate of 25%	6,563	6,561	6,360	6,415
Tax effect of non-deductible expense	1,419	1,312	1,419	1,310
Tax effect of tax-exempt income	(1,662)	(1,386)	(1,660)	(1,386)
Total	**6,320**	**6,487**	**6,119**	**6,339**

43. Other comprehensive income

Other comprehensive income to be classified as profit/loss

	The Group and the Bank				
	2017				
	Changes in other comprehensive income for the year				
	Opening balance	Increase over the year	Decrease over the year	Sub-total of changes	Ending balance
Net fair value changes of available-for-sale financial assets	30	–	(1,565)	(1,565)	(1,535)
Impact of changes in fair value of available-for-sale financial assets on income tax	(8)	–	391	391	383
Total	**22**	**–**	**(1,174)**	**(1,174)**	**(1,152)**

	The Group and the Bank				
	2016				
	Changes in other comprehensive income for the year				
	Opening balance	Increase over the year	Decrease over the year	Sub-total of changes	Ending balance
Net fair value changes of available-for-sale financial assets	1,723	–	(1,693)	(1,693)	30
Impact of changes in fair value of available-for-sale financial assets on income tax	(431)	–	423	423	(8)
Total	**1,292**	**–**	**(1,270)**	**(1,270)**	**22**

Other comprehensive income items abovementioned will be reclassified as profit/loss in the subsequent accounting periods when the specified conditions are met. Except those mentioned above, the Bank has no other comprehensive income items that can't be reclassified as profit/loss in the subsequent accounting periods.

44. Earnings per share

	2017	2016
Net profit attributable to shareholders of the parent company in the year	19,819	19,677
Net profit attributable to ordinary shareholders of the parent company	18,979	19,677
Weighted average ordinary shares in issue (million shares)	12,823	12,823
Basic earnings per share (RMB yuan)	1.48	1.53

While calculating the earnings per share, the net profit attributable to ordinary shareholders of the parent company in the year has been deducted with the dividends for preference shares that were disbursed in 2017 totaling RMB840 million. According to the resolutions of the Shareholders' General Meeting of the Bank held on 24 May 2017 and the *Announcement on Implementing the Plan for 2016 Profit Distribution and Conversion of Capital Reserve to Share Capital of Hua Xia Bank Co., Limited* released on 23 June 2017, the Bank converted the capital reserve into capital share at a ratio of 2 for 10 shares on the basis of 10,685,572,211 ordinary shares on 31 December 2016, and the registered capital was increased by RMB2,137,114,442. After the conversion, the registered capital was RMB12,822,686,653 and the total ordinary share capital was 12,822,686,653 shares. According to relevant requirements, the Bank recalculated the weighted average ordinary shares in issue and earnings per share of the comparable periods based on the number of shares after the conversion.

At the end of 2017, the Company had no potential diluted ordinary shares.

45. Cash and cash equivalents

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Cash on hand	2,598	3,210	2,587	3,200
Balances with central banks	17,665	22,692	17,392	22,159
Due from banks, placements with banks and other financial institutions and financial assets under reverse repurchase agreements with the original term less than three months	89,928	233,503	88,740	233,421
Total	**110,191**	**259,405**	**108,719**	**258,780**

46. Supplementary information on the statement of cash flows

	The Group		The Bank	
	2017	2016	2017	2016
Net profit adjusted into cash flows from operating activities:				
Net profit	19,933	19,756	19,321	19,323
Plus: Impairment losses on assets	17,589	13,865	17,302	13,313
Fixed assets	1,103	1,094	1,099	1,090
Amortization of intangible assets	3	3	3	2
Amortization on long-term prepaid expenses	2,001	1,843	1,979	1,817
Interest income from securities investment	(29,221)	(19,426)	(29,170)	(19,425)
Net gains on disposal of fixed assets, intangible assets and other long-term assets	(5)	(2)	(5)	(2)
Loss/(gain) on changes in fair value	(1,836)	494	(1,836)	494
Investment loss/(gain)	1,527	(717)	1,524	(717)
Exchange loss	(602)	805	(602)	805
Deferred income tax	(158)	(991)	(120)	(872)
Interest income from impaired financial assets identified	(958)	(728)	(957)	(728)
Interest expense on bonds issued	3,178	1,915	3,178	1,915
Increase of operating receivables	(187,874)	(137,085)	(176,666)	(128,439)
Increase of operating payables	87,492	259,086	79,912	250,508
Net cash flows from operating activities	**(87,828)**	**139,912**	**(85,038)**	**139,084**
Net change of cash and cash equivalents:				
Closing balance of cash and cash equivalents	110,191	259,405	108,719	258,780
Less: Opening balance of cash and cash equivalents	(259,405)	(330,968)	(258,780)	(330,271)
Net change of cash and cash equivalents	**(149,214)**	**(71,563)**	**(150,061)**	**(71,491)**

X. SEGMENT REPORT

The Group determines the operating segments according to the organizational framework, management requirement and internal reporting system, and on this basis, determines the reporting segments.

An operating segment refers to the component within the Group meeting the following conditions at the same time: (1) such component can generate income and incur expenses in the daily activities; (2) the management of the enterprise can regularly assess the operating results of the component to determine the resources allocated to it and assess its performance; (3) the enterprise can obtain the accounting information relating to the component's financial position, operating results and cash flows.

The Group's reporting segments include Northern and Northeastern China, Eastern China, Southern and Central China and Western China. Particularly speaking:

(1) Northern and Northeastern China: Beijing, Tianjin, Hebei, Shandong, Liaoning, Inner Mongolia, Jilin and Heilongjiang;

(2) Eastern China: Jiangsu, Shanghai, Zhejiang and Anhui;

(3) Southern and Central China: Guangdong, Guangxi, Hubei, Hunan, Shanxi, Fujian, Henan, Jiangxi and Hainan; and

(4) Western China: Shaanxi, Xinjiang, Sichuan, Chongqing, Yunnan, Ningxia and Guizhou.

Accounting policies of the operating segments maintain the same with the major accounting policies of the Group.

When presenting information by operating segment, operating income is divided on the basis of location of branches generating income. Segment assets and capital expenditure are divided by the location of the related assets.

2017	Northern and Northeastern China	Eastern China	Central China and Southern China	Western China	Offset among segments	Total
Operating income	35,268	12,811	10,995	7,313	(3)	66,384
Net interest income	18,711	11,889	10,285	6,433	–	47,318
Of which,						
Net external interest income	19,531	12,493	8,195	7,099	–	47,318
Segmental net interest income	(820)	(604)	2,090	(666)	–	–
Net fee and commission income	16,179	795	614	819	–	18,407
Other net operating income	378	127	96	61	(3)	659
Operating expenses	(19,361)	(8,102)	(7,793)	(5,011)	–	(40,267)
Operating profit	15,907	4,709	3,202	2,302	(3)	26,117
Net non-operating income	8	59	53	16	–	136
Gross profit	15,915	4,768	3,255	2,318	(3)	26,253
Supplementary information						
1. Depreciation and amortization expenses	1,571	619	550	367	–	3,107
2. Capital expenditures	1,571	835	1,721	556	–	4,683
3. Impairment losses on assets	8,343	3,574	3,234	2,438	–	17,589
31 December 2017						
Segment assets	2,296,839	619,412	624,949	379,675	(1,418,481)	2,502,394
Undistributed assets						6,533
Total assets						2,508,927
Segment liabilities	2,149,362	615,310	622,271	370,967	(1,418,481)	2,339,429
Undistributed liabilities						–
Total liabilities						2,339,429

2016	Northern and Northeastern China	Eastern China	Central China and Southern China	Western China	Offset among segments	Total
Operating income	30,440	13,998	11,288	8,289	–	64,015
Net interest income	18,904	12,699	10,259	7,127	–	48,989
Of which,						
Net external interest income	22,444	11,082	8,840	6,623	–	48,989
Segmental net interest income	(3,540)	1,617	1,419	504	–	–
Net fee and commission income	11,328	1,209	981	1,138	–	14,656
Other net operating income	208	90	48	24	–	370
Operating expenses	(14,762)	(9,535)	(8,264)	(5,345)	–	(37,906)
Operating profit	15,678	4,463	3,024	2,944	–	26,109
Net non-operating income	32	29	19	54	–	134
Gross profit	15,711	4,492	3,042	2,998	–	26,243
Supplementary information						
1. Depreciation and amortization expenses	1,476	598	525	341	–	2,940
2. Capital expenditures	1,584	662	490	382	–	3,118
3. Impairment losses on assets	4,224	4,106	3,148	2,387	–	13,865
31 December 2016						
Segment assets	1,910,517	640,312	625,117	361,632	(1,187,327)	2,350,251
Undistributed assets						5,984
Total assets						2,356,235
Segment liabilities	1,775,645	636,587	622,687	355,670	(1,187,327)	2,203,262
Undistributed liabilities						–
Total liabilities						2,203,262

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. Related parties

There is no related party that controls or jointly controls the Bank. Other related parties are as follows:

(1) Shareholders holding no less than 5% shares in the Bank and exerting significant influence on the Bank by the end of 2017

Name of related shareholder	Register place	Legal Representative/ CEO	Business nature	Registered capital	Shareholding percentage (%)	Voting rights percentage (%)
Shougang Group Co., Ltd.	Beijing	Jin Wei	Industries, construction, geologic exploration, transportation, foreign trade, telecommunication, finance and insurance, scientific research and comprehensive technologic service, domestic commerce, public catering, material supply and sales, warehouse, etc.	RMB28,755 million	20.28	20.28
PICC Property and Casualty Company Limited	Beijing	Wu Yan	RMB and foreign currency issuance and related reinsurance; services and consultancy of insurance and reinsurance; handling relevant business on behalf of insurance institutions; investment and fund application, etc.	RMB14,829 million	19.99	19.99
SGCC Yingda International Holdings Corporation, Ltd	Beijing	Xin Xuwu	Investment and assets operation and management; assets custody, rendering services for enterprise restructuring, M&A, strategic placement and venture capital investment; investment consultation; and investment advisory	RMB19 billion	18.24	18.24

On 28 December 2015, PICC Property and Casualty Company Limited (PICC P&C) signed the Equity Transfer Agreement with DEUTSCHE BANKLUXEMBOURG S.A., DEUTSCHE BANK AKTIENGESELLSCHAFT and SAL.OPPENHEIM JR. & CIEKOMMANDITGESELLSCHAFT AUF AKTIEN (collectively referred to as "DEUTSCHE BANK parties") that PICC P&C would accept 2,136,045,885 shares of the Bank held by the DEUTSCHE BANK parties, which account for 19.99% of the total share capital of the Bank, and the equity transfer completed on 17 November 2016.

(2) Subsidiaries of the Bank

Please refer to Note VIII Business Combination and Consolidated Financial Statements.

(3) Other related parties

Other related parties include:

(i) key management personnel (directors, supervisors and senior executives of the Head Office), or their close family members;

(ii) enterprises controlled or jointly controlled by key management personnel or their close family members;

(iii) State Grid Corporation (now named as State Grid Corporation of China) (parent company of SGCC Yingda International Holdings Corporation, Ltd., the related party shareholder of the Bank) and its subsidiaries; PICC Insurance Group Company Limited (parent company of PICC Property and Casualty Company Limited, the related party shareholder of the Bank) and its subsidiaries.

2. Related party transactions

Related party transactions between the Bank and its related parties, whose pricing will be based on general transaction price according to normal commercial terms, shall be subject to the approval of corresponding decision-making institution by transaction type.

(i) Related party transactions with shareholders holding no less than 5% shares in the Bank and exerting significant influence on the Bank and their subsidiaries

	31 December 2017		31 December 2016	
	Transaction balance	**Percentage (%)(i)**	**Transaction balance**	**Percentage (%)(i)**
Assets				
Loans and advances				
Loans	8,578	0.82	8,298	0.70
Discounting	498	3.02	–	–
Interest receivable	95	0.62	73	0.53
Other assets	–	–	139	2.39
Liabilities				
Deposits taken	7,682	0.54	9,207	0.67
Due to banks and other financial institutions	1,273	0.55	49	0.02
Interest payable	202	1.27	212	1.45
Off-balance-sheet items				
Letters of guarantee issued	2	0.01	26	0.13
Letters of credit issued	863	1.14	1,055	1.44
Bank acceptance drafts	1,787	0.75	1,738	0.64
Non-principal-guaranteed wealth management products issued by the Bank	4,000	0.57	–	–

	2017		2016	
	Transaction balance	**Percentage (%)(i)**	**Transaction balance**	**Percentage (%)(i)**
Interest income	612	0.61	592	0.67
Interest expense	736	1.39	782	1.99
Fee and commission income	12	0.06	–	–
General and administrative expenses	1	–	–	–

(i) Percentage of related party transaction balance or amount in the total balance or amount of the Group's transactions of the same type.

(ii) Based on the description of related parties in *the Administrative Measures for the Disclosure of Information of Listed Companies*, the legal person holding more than 5% of the listed company or the persons acting in concert in the previous 12 months or in the future 12 months as per relevant agreement are the related legal persons of the listed company. Therefore, the disclosed data in 2016 include Deutsch Bank with an original shareholding ratio of 19.99%.

(2) Related party transactions with other related parties

	31 December 2017		31 December 2016	
	Transaction balance	Percentage (%)(i)	Transaction balance	Percentage (%)(i)
Assets				
Loans and advances				
Loans	764	0.07	565	0.05
Discounting	–	–	–	–
Financial assets measured at fair value through profit or loss	60	1.87	–	–
Held-to- maturity investments	500	0.12	500	0.14
Available-for-sale financial assets	1,000	0.91	950	1.03
Account receivable held for investment	100	0.04	–	–
Interest receivable	116	0.76	95	0.69
Liabilities				
Deposits taken	2,310	0.16	1,788	0.13
Due to banks and other financial institutions	–	–	813	0.36
Interest payable	10	0.06	12	0.08
Off-balance-sheet items				
Letters of guarantee issued	–	–	1	–
Bank acceptance drafts	420	0.18	98	0.04
Non-principal-guaranteed wealth management products issued by the Bank	1,050	0.15	–	–

	2017		2016	
	Transaction balance	Percentage (%)(i)	Transaction balance	Percentage (%)(i)
Interest income	209	0.21	159	0.18
Interest expense	98	0.19	114	0.29
Fee and commission income	4	0.02	–	–
General and administrative expenses	219	1.00	–	–

(i) Percentage of related party transaction balance or amount in the total balance or amount of the Group's transactions of the same type.

(3) Remuneration of key management personnel

The key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Bank, directly or indirectly, including directors, supervisors and senior management members. Directors of the Bank are of the view that related party transactions between key management personnel stated above and the Bank are carried out under normal commercial terms as the same with those with non-related parties.

Remunerations of directors, supervisors and key senior management members received from the Bank are set out below:

	2017	**2016**
Remunerations	11	11

The final total compensation before tax for Chairman, President, Chairman of the Board of Supervisors, employee representative supervisors and other senior management members of the Bank is in the process of determination, and the remaining part will be disclosed separately after determination. Nevertheless, the Management of the Group expects that the difference between the above amount and the final compensation amount will not pose material influence on the consolidated financial statements of 2017.

(4) Enterprise annuity

Except the normal fund contribution to enterprise annuity created by the Group and general banking businesses, the Group has no related party transactions in 2017 and 2016.

XII. CONTINGENCIES AND COMMITMENTS

1. Pending legal proceedings

As at 31 December 2017, the claimed amount of pending legal proceedings where the Bank or any of its subsidiaries is the defendant or the third party totaled RMB621 million (RMB481 million as at 31 December 2016). Based on court order or suggestions of legal consultants, the Group has set aside provisions for losses arising from legal proceedings against it. The Management of the Group believes that the final court decision on these legal proceedings will not impose material impact on the Group's financial position or operation.

2. Capital expenditure commitments

		The Group and the Bank	
	Note	**31 December 2017**	**31 December 2016**
Capital commitments signed but not confirmed in the financial statements			
Commitment to purchase long-term assets	(1)	101	128
External investment commitments	(2)	60	60
Total		**161**	**188**

(1) Commitment to purchase long-term assets is the unpaid account estimated in construction in-process of the Bank.

(2) On 14 October 2010, the 25th meeting of the 5th Board of Directors of the Bank reviewed and approved the *Proposal on Initiating the Setup of Songyang Hua Xia Rural Bank in Zhejiang*, agreeing to contribute capital to the setup of a rural bank in Songyang, Zhejiang Province with the registered capital of RMB50 million to RMB100 million, of which the Bank held 51% (inclusive) – 60% of shares. As at 31 December 2017, the rural bank was yet to be established.

3. Credit commitments

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Bank acceptance drafts	237,638	273,235	238,637	273,424
Letters of credit issued	75,807	73,508	75,807	73,508
Letters of guarantee issued	21,889	20,623	21,883	20,623
Irrevocable loan commitments	2,609	5,269	681	2,507
Unused credit card limit	143,380	103,363	143,380	103,363
Total	**481,323**	**475,998**	**480,388**	**473,425**

4. Financial lease commitments

On the balance sheet date, the minimum lease payment maturity under the irrevocable financial lease contracts signed by the Group as the leaser is as follows:

	The Group	
	31 December 2017	31 December 2016
Within 1 year	1,928	2,761

5. Operating lease commitments

On the balance sheet date, the minimum lease payment maturity under the irrevocable operating lease contracts signed by the Group and the Bank as the leasee is as follows:

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Within 1 year	1,679	1,503	1,657	1,480
1 – 2 years	1,458	1,337	1,439	1,315
2 – 3 years	1,191	1,198	1,173	1,179
3 – 5 years	1,705	1,698	1,694	1,671
Over 5 years	1,475	1,536	1,459	1,515
Total	**7,508**	**7,272**	**7,422**	**7,160**

6. Collateral

(1) Collateral assets

On the balance sheet date, the book value of assets used as collateral for transactions under repurchase agreements is as follows:

	The Group and the Bank	
	31 December 2017	**31 December 2016**
Bonds	71,098	107,644
Bills	56	231
Total	**71,154**	**107,875**

On 31 December 2017, the book value of financial assets under repurchase agreements of the Group was RMB70,002 million (31 December 2016: RMB106,696 million).

In addition, partial bond investment of the Group is used as collateral for on-lending, third-party lending, time deposits of commercial banks under cash management of the central treasury and mid-term credit facility of PBOC or as collateral according to regulatory requirements. On 31 December 2017, the book value of the above collaterals was RMB171,883 million (31 December 2016: RMB171,110 million).

(2) Collateral received

The Group accepts such collateral as securities in relevant business under reverse repurchase agreements. Some of the securities accepted can be sold or re-used as collateral. On 31 December 2017, the book value of such collaterals as securities that can be sold or reused as collaterals accepted by the Group was RMB833 million (31 December 2016: RMB1,392 million). On 31 December 2017 and 31 December 2016, the Bank had no collateral that has been reused as collateral by the Group and should be returned upon maturity.

7. Government bonds underwriting and redemption

As a member of the underwriter group of savings government bonds of the Ministry of Finance (MOF), the Group underwrites and sells savings government bonds as an agent. Holders of savings government bonds may request redemption in advance and the Group is obliged to perform the duty of redemption. The Group is obliged to redeem the principal of the savings government bonds and the interest payable determined according to the early redemption agreement.

On 31 December 2017, the Group is obliged to redeem the savings government bond principal of RMB9,228 million (31 December 2016: RMB9,206 million). The original term of the above savings government bonds ranges from 1 to 5 years. The Management expects that the amount of redemption of these savings government bonds through the Group prior to maturity will not be material.

The MOF will not provide fund for the early redemption of these savings government bonds in a timely manner but is obliged to repay the principal and the interest upon maturity or according to documents issued.

8. Entrusted transaction

(1) Entrusted deposits and loans

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Entrusted loans	386,763	301,581	385,692	301,338
Entrusted loan funds	386,763	301,581	385,692	301,338

(2) Entrusted investments

	The Group and the Bank	
	31 December 2017	31 December 2016
Entrusted investments	702,935	716,278

Entrusted investment means that the Group manages customer assets as entrusted by the non-principal-guaranteed wealth management customer and the investment risk of entrusted assets is taken by the customer.

XIII. TRANSFER OF FINANCIAL ASSETS

Asset-backed securities

The Group conducts asset-backed securities transactions during the normal operation. The Group sells part of financial assets to the Special Purpose Trust (SPT), which then issues asset-backed securities to investors. The Group decides whether to combine the special-purpose trusts by taking into the following into full account: whether exercising power over such trusts, whether being entitled to variable returns by participating in the activities relating to such trusts; and whether being able to influence its returns by wielding its power over such trusts.

The Group transferred the related financial assets and nearly all risks (mainly including credit risk, prepayment risk and interest rate risk of the target financial assets) thereof and returns arising from the ownership of such assets to other investors, so the Group derecognized such financial assets. As at the transfer date, the book value of the above securitized/structured financial assets of the Group for 2017 totaled RMB35,554 million (2016: RMB49,058 million). At the same time, the Group subscribed a certain ratio of asset-backed securities. As at 31 December 2017, the above securities held by the Group amounted to RMB207 million (31 December 2016: RMB745 million).

Once the SPT established, such part of financial assets shall be discriminated from other assets without SPT, while the above financial assets are being transferred. According to relevant transaction documents, in case of dissolution, liquidation, bankruptcy of the Group according to law, assets under the SPT shall not be subject to the liquidation. As the issuance consideration equaled to the book value of the transferred financial assets, the Group did not recognize any gains or losses from the transfer of such assets. The Group will charge certain fees as financial assets service provider subsequently.

During the process of credit asset securitization, the Group may possess part of subordinated asset-backed securities and thus continue involvement of transferred credit assets, which was recognized on the balance sheet by the Group in accordance with the extent of the its continuing involvement. The rest was derecognized. As at 31 December 2017, among the securitization transactions where the Group has a certain extent of continuing involvement, the book value of the securitized credit assets stood at RMB2,201 million (31 December 2016: none). The continuing involved assets and liabilities recognized by the Group according to the extent of its continuing involvement reached RMB239 million (31 December 2016: none).

On top of the above asset-backed securities transactions, the Group transferred the financial assets in a book value of RMB2,517 million (31 December 2016: none) in 2017. In the transaction, it didn't transfer nearly all risks (mainly including credit risk, prepayment risk and interest rate risk of the transferred financial assets) and returns arising from the ownership of such asset to other investors. So the Group didn't derecognize such part of financial assets. Instead, it recognized the received consideration with the part subscribed by itself as a financial liability in the form of net value.

Repurchase agreements

The Group conducted transactions under repurchase agreements with counterparties. On 31 December 2017, the book value of bond assets and bill assets sold by the Group under repurchase agreements totaled RMB71,154 million (31 December 2016: RMB107,875 million). At the same time, it undertook that it would repurchase such bonds or bills at the agreed-upon price on a preset future date. The sales income of the above bonds and bills was presented as financial assets under repurchase agreements, which was RMB70,002 million (31 December 2016: RMB106,696 million). According to the repurchase agreements, the legal ownership of the bonds and bills is not transferred during the transaction period. In addition, the Group shall not sell or mortgage such bonds and bills during the transaction period, without consent of both parties. Therefore, the Group deems that almost all the risks and compensations relating with such bonds and bills are retained within the Group. Consequently, the Group did not derecognize these bonds and bills from the consolidated financial statements; instead, it deemed them as collaterals for pledged loans acquired from counterparties. Claim of the counterparties is not limited to such transferred assets.

Credit assets transfers

In 2017, the Group disposed of loans with a book value of RMB6,498 million via transfer to third parties (2016: RMB6,865 million). The Group has transferred almost all the risk and compensation relating to the ownership of the above loans, and therefore they have been derecognized.

XIV. STRUCTURED ENTITIES

1. Interests and rights enjoyed in structured entities sponsored by the Group but excluded in the consolidated financial statements

Structured entities sponsored by the Group but excluded in the consolidated financial statements mainly include non-principal-guaranteed wealth management products and asset-backed securities issued by the Bank. The nature and purpose of these structured entities are to manage investors' assets and charge management fees. They raise fund by issuing investment products to investors.

As at the date of the balance sheet, the amount of unconsolidated structured entities sponsored by the Group and rights and interests therefrom are listed as follows:

The Group

	31 December 2017				
	Sponsor amount	Book value	Maximum loss exposure	Income from structured entities in the year	Major income type
Non-principal-guaranteed wealth management products	702,935	N/A	N/A	6,981	Fee income
Asset-backed securities	35,554	207	207	202	Fee income and interest income
Total	**738,489**	**207**	**207**	**7,183**	

	31 December 2016				
	Sponsor amount	Book value	Maximum loss exposure	Income from structured entities in the year	Major income type
Non-principal-guaranteed wealth management products	716,278	N/A	N/A	5,840	Fee income
Asset-backed securities	49,058	745	745	481	Fee income and interest income
Total	**765,336**	**745**	**745**	**6,321**	

As at 31 December 2017 and 31 December 2016, the Group provided no financial or other supports to structured entities excluded in the consolidated financial statements. It also has no plan to do so.

2. Rights and interests enjoyed in structured entities sponsored by third-party institutions

The Group enjoys rights and interests in structured entities sponsored by third-party institutions by directly holding investments These structured entities mainly include beneficiary rights of assets and asset-backed securities whose nature and purpose are to manage investors' assets and charge management fees. They raise fund by issuing investment products to investors.

The book value and maximum loss exposure of rights and interests enjoyed by the Group in structured entities sponsored by third-party institutions by directly holding investments are presented as follows:

		The Group	
	Items of the balance sheet	31 December 2017	31 December 2016
Beneficiary rights of assets	Account receivable held for investment	70,978	37,844
Wealth management products	Account receivable held for investment	14,400	76,205
Asset management plan of financial institutions	Account receivable held for investment	164,636	81,672
Asset-backed securities	Held-to- maturity investments	6,329	4,980
Asset-backed securities	Available-for-sale financial assets	9,416	5,396
Total		**265,759**	**206,097**

3. Consolidated structured entities

Consolidated structured entities of the Group were principal-guaranteed wealth management products issued by the Group.

XV. RISK MANAGEMENT

1. Overview

The Group mainly faces credit risk, market risk and liquidity risk. Market risk includes exchange rate risk, interest rate risk and other price risks.

2. Risks management framework

The Management of the Group is responsible for determining the overall risk appetite, and reviewing and approving the risk management objectives and strategies of the Group.

The risk management framework: Senior Management of the Group is responsible for the overall and specific risk management, including implementing risk management strategies, measures and credit policies, approving the internal rules, measures and procedures concerning risk management and establishing a risk management department and other relevant departments to manage financial risks.

3. Credit risk

3.1 Credit risk management

Credit risk refers to the possibility of loss and uncertainty of income caused by customer default or decreased credit standing to a commercial bank, when the bank operates credit, inter-bank lending and investment businesses. The credit risk of the Group mainly exists in the on-balance- sheet and off-balance-sheet businesses including loans and advances, placements with banks and other financial institutions, inter-bank lending, bond investments, bill acceptance, L/C, and L/G. The credit risk management process of the Group confirms and manages the above risks by mainly focusing on pre-loan due diligence, credit rating, loan approval procedure, loan-granting management, post-lending monitoring and loan collection management procedure.

Before granting credit to a single customer, the Group will conduct credit appraisal first and regularly inspect the credit limit granted. The means for credit risk management include acquisition of collaterals and warranty. As for the off-balance-sheet credit commitment, the Group will charge security deposit to reduce the credit risk in general.

The Group classifies loans and advances to customers into five categories, namely pass, special-mention, substandard, doubtful and loss. The last three categories are deemed as non-performing loans (NPLs). Loan impairment is mainly determined by the possibility of repayment and recovery of principal and interest. Major assessment factors include repayment ability, credit record, repayment willingness, profitability of loan project, guarantee or mortgage measures and legal liability for loan repayment of the borrower. The Group sets aside allowance for loan impairment by collective assessment or individual assessment.

The Group assesses the impairment of the loans and advances to customers at the end of the reporting period according to the accounting policies specified in Note IV. In addition, at the end of the reporting period, the Group will analyze the contract amount of loans and advances to customers and report it to the Management for assessing credit risk.

According to the guidelines of the CBRC on loan risk classification, the definitions of the Group's five-tier classifications of loans and advances to customers are listed as below:

- Pass: The borrower is able to perform the loan clauses and there is no reason for doubting the timely and full-amount repayment of loan principal and interest.

- Special-mention: Though the borrower is capable of repaying the loans at present, there are factors that are likely to adversely influence the repayment.

- Substandard: The repayment ability of the borrower is obviously doubtful and its normal operating income can't be fully relied on to repay the principal and interest. Even if guarantee or mortgage measures are taken, there still might be certain loss.

- Doubtful: The borrower can't repay the principal and interest in full amount. Even if guarantee or mortgage measures are taken, there must be material loss.

- Loss: The principal or interest can't be recovered or only a small portion can be recovered after the Group takes all possible measures and resorts to all necessary legal proceedings.

The accounting standards used by the Group to assess the impairment loss of financial assets are specified in Note IV-8(2) Impairment of Financial Assets.

3.2 Maximum credit risk exposure

Without regard to the available collaterals or other credit enhancement measures, the amounts of the maximum credit exposure on the balance sheet date are presented as follows:

	The Group	
	31 December 2017	31 December 2016
Balances with central banks	223,239	218,963
Due from and placements with banks and other financial institutions	72,086	149,648
Financial assets at fair value through profit or loss	3,206	4,939
Derivative financial assets	3,256	803
Financial assets held under resale agreements	40,203	122,032
Loans and advances	1,355,585	1,184,355
Available-for-sale financial assets	110,230	92,170
Held-to- maturity investments	401,493	345,593
Account receivable held for investment	250,315	197,378
Other financial assets	22,811	17,140
On-balance-sheet credit risk exposure	2,482,424	2,333,021
Off-balance-sheet credit risk exposure	481,323	475,998
Maximum credit risk exposure	**2,963,747**	**2,809,019**

	The Bank	
	31 December 2017	31 December 2016
Balances with central banks	222,795	218,256
Due from and placements with banks and other financial institutions	71,047	149,531
Financial assets at fair value through profit or loss	3,206	4,939
Derivative financial assets	3,256	803
Financial assets held under resale agreements	40,203	122,032
Loans and advances	1,300,368	1,139,301
Available-for-sale financial assets	110,230	92,170
Held-to- maturity investments	402,093	345,593
Account receivable held for investment	249,428	196,478
Other financial assets	21,521	16,859
On-balance-sheet credit risk exposure	2,424,147	2,285,962
Off-balance-sheet credit risk exposure	480,388	473,425
Maximum credit risk exposure	**2,904,535**	**2,759,387**

The Group will adopt a series of policies and credit enhancement measures to reduce the credit risk exposure to an acceptable level. Common methods include asking the borrower to pay security deposit or providing collaterals or warranty. The amount and type of collaterals required by the Group depend on the assessment of the credit risk of the counterparty. As for the type and assessment parameters of collaterals, the Group has formulated relevant guideline and it takes the acceptable type and its value as the specific implementation standard.

The types of collaterals accepted by the Group are as follows:

(1) Reverse repurchase transactions: bills, bonds, etc.;

(2) Corporate loans: house property, machinery equipments, land use rights, certificate of deposits and equity, etc.; and

(3) Personal loans: house property and certificate of deposits, etc.

The Management regularly inspects the value of collaterals and requires the counterparty to increase the collaterals if necessary.

3.3 Derivative financial instruments

The credit risk of derivative financial instruments of the Group lies in whether the counterparty is able to make payments timely in line with the contract. As for the evaluation and control standard for credit risk of derivative financial instruments, the Group applied the same risk control standard with the other transactions.

3.4 Off-balance-sheet business risk

The Group includes the off-balance-sheet business into unified credit management. As for the off-balance-sheet businesses such as bank acceptance bills, L/C and L/G, the Bank requires authentic trading background, charges security deposit in corresponding proportion based on the credit status of customers and business risk level, and requires effective guarantee for the remaining parts. The Group strictly controls financing L/G and other high-risk off-balance-sheet businesses.

3.5 Credit quality of various assets with credit risk

	31 December 2017 (the Group)				
	Neither overdue nor impaired financial assets	**Overdue but not impaired financial assets**	**Impaired financial assets**	**Allowance for impairment losses**	**Total**
Balances with central banks	223,239	–	–	–	223,239
Due from and placements with banks and other financial institutions	72,125	–	116	(155)	72,086
Financial assets measured at fair value through profit or loss	3,205	1	–	–	3,206
Derivative financial assets	3,256	–	–	–	3,256
Financial assets held under resale agreements	39,897	306	–	–	40,203
Loans and advances	1,337,818	31,667	24,597	(38,497)	1,355,585
Available-for-sale financial assets	110,237	–	–	(7)	110,230
Held-to- maturity investments	401,508	–	–	(15)	401,493
Account receivable held for investment	250,928	–	1,382	(1,995)	250,315
Other financial assets	22,734	–	873	(796)	22,811
Total	**2,464,947**	**31,974**	**26,968**	**(41,465)**	**2,482,424**

	31 December 2016 (the Group)				
	Neither overdue nor impaired financial assets	Overdue but not impaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	218,963	–	–	–	218,963
Due from and placements with banks and other financial institutions	149,700	–	121	(173)	149,648
Financial assets measured at fair value through profit or loss	4,938	1	–	–	4,939
Derivative financial assets	803	–	–	–	803
Financial assets held under resale agreements	121,726	306	–	–	122,032
Loans and advances	1,159,038	37,268	20,348	(32,299)	1,184,355
Available-for-sale financial assets	92,172	–	–	(2)	92,170
Held-to- maturity investments	345,593	–	–	–	345,593
Account receivable held for investment	196,757	–	1,650	(1,029)	197,378
Other financial assets	17,042	–	852	(754)	17,140
Total	**2,306,732**	**37,575**	**22,971**	**(34,257)**	**2,333,021**

	31 December 2017 (the Bank)				
	Neither overdue nor impaired financial assets	Overdue but not impaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	222,795	–	–	–	222,795
Due from and placements with banks and other financial institutions	71,086	–	116	(155)	71,047
Financial assets measured at fair value through profit or loss	3,205	1	–	–	3,206
Derivative financial assets	3,256	–	–	–	3,256
Financial assets held under resale agreements	39,897	306	–	–	40,203
Loans and advances	1,281,342	31,628	24,446	(37,048)	1,300,368
Available-for-sale financial assets	110,237	–	–	(7)	110,230
Held-to- maturity investments	402,108	–	–	(15)	402,093
Account receivable held for investment	250,028	–	1,382	(1,982)	249,428
Other financial assets	21,434	–	873	(786)	21,521
Total	**2,405,388**	**31,935**	**26,817**	**(39,993)**	**2,424,147**

	31 December 2016 (the Bank)				
	Neither overdue nor impaired financial assets	Overdue but not impaired financial assets	Impaired financial assets	Allowance for impairment losses	Total
Balances with central banks	218,256	–	–	–	218,256
Due from and placements with banks and other financial institutions	149,583	–	121	(173)	149,531
Financial assets measured at fair value through profit or loss	4,938	1	–	–	4,939
Derivative financial assets	803	–	–	–	803
Financial assets held under resale agreements	121,726	306	–	–	122,032
Loans and advances	1,112,958	37,210	20,229	(31,096)	1,139,301
Available-for-sale financial assets	92,172	–	–	(2)	92,170
Held-to- maturity investments	345,593	–	–	–	345,593
Account receivable held for investment	195,857	–	1,650	(1,029)	196,478
Other financial assets	16,755	–	851	(747)	16,859
Total	**2,258,641**	**37,517**	**22,851**	**(33,047)**	**2,285,962**

Overdue financial assets refer to the financial assets with principal or interest overdue for 1 day or above.

3.6 Loans and advances

(1) The Loans and advances are distributed by industry as follows:

	The Group			
	31 December 2017		31 December 2016	
Industry	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Manufacturing	214,979	15.42	214,201	17.60
Leasing and commercial services	203,138	14.57	155,004	12.74
Wholesale and retail	169,237	12.14	155,962	12.82
Real estate	100,249	7.19	90,119	7.41
Construction industry	88,779	6.37	83,378	6.85
Water conservancy, environment and public facilities management	62,046	4.45	65,591	5.39
Transportation, warehousing and post industry	49,754	3.57	49,758	4.09
Electric power, heat, gas and water production and supply industry loans	43,149	3.10	32,206	2.65
Mining industry	32,208	2.31	33,016	2.71
Other corporate industries	90,889	6.52	64,302	5.29
Discounted bills	16,507	1.18	27,459	2.26
Personal loan	323,147	23.18	245,658	20.19
Total loans and advances to customers	**1,394,082**	**100.00**	**1,216,654**	**100.00**

	The Bank			
	31 December 2017		31 December 2016	
Industry	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Manufacturing	208,911	15.62	206,797	17.67
Leasing and commercial services	202,693	15.16	154,582	13.21
Wholesale and retail	168,905	12.63	155,636	13.30
Real estate	100,244	7.50	90,119	7.70
Construction industry	88,170	6.59	82,813	7.08
Water conservancy, environment and public facilities management	62,046	4.64	52,852	4.52
Transportation, warehousing and post industry	40,420	3.02	40,548	3.46
Mining industry	29,550	2.21	29,600	2.53
Electric power, heat, gas and water production and supply industry loans	27,078	2.02	20,849	1.78
Other corporate industries	70,501	5.27	64,028	5.46
Discounted bills	16,505	1.23	27,459	2.35
Personal loan	322,393	24.11	245,114	20.94
Total loans and advances to customers	**1,337,416**	**100.00**	**1,170,397**	**100.00**

(2) The Loans and advances are distributed by region as follows:

	The Group			
	31 December 2017		31 December 2016	
Regions	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Northern and Northeastern China	525,878	37.72	457,647	37.62
Eastern China	382,613	27.45	331,551	27.24
Central China and Southern China	305,926	21.94	262,995	21.62
Western China	179,665	12.89	164,461	13.52
Total loans and advances to customers	**1,394,082**	**100.00**	**1,216,654**	**100.00**

	The Bank			
	31 December 2017		31 December 2016	
Regions	**Amount**	**Percentage (%)**	**Amount**	**Percentage (%)**
Northern and Northeastern China	510,271	38.15	443,413	37.88
Eastern China	362,603	27.11	317,543	27.13
Central China and Southern China	298,069	22.29	256,145	21.89
Western China	166,473	12.45	153,296	13.10
Total loans and advances to customers	**1,337,416**	**100.00**	**1,170,397**	**100.00**

(3) The loans and advances are distributed by collateral as follows:

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Unsecured loans	268,629	196,635	254,403	185,448
Guaranteed loans	524,552	462,333	485,875	430,726
Collateral loans	600,901	557,686	597,138	554,223
Of which: Mortgage loans	463,463	433,433	462,187	432,164
Pledged loans	137,438	124,253	134,951	122,059
Total loans and advances to customers	**1,394,082**	**1,216,654**	**1,337,416**	**1,170,397**

(4) Overdue loans

	The Group 31 December 2017				
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	1,138	1,137	1,310	56	3,641
Guaranteed loans	3,978	7,242	16,113	1,954	29,287
Mortgage loans	2,575	4,126	8,383	1,581	16,665
Pledged loans	1,009	1,227	2,543	1,294	6,073
Total	**8,700**	**13,732**	**28,349**	**4,885**	**55,666**

	The Group 31 December 2016				
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	1,362	1,031	457	6	2,856
Guaranteed loans	6,517	10,384	11,603	1,050	29,554
Mortgage loans	3,061	6,489	8,686	559	18,795
Pledged loans	609	1,760	3,313	488	6,170
Total	**11,549**	**19,664**	**24,059**	**2,103**	**57,375**

	The Bank				
	31 December 2017				
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	1,138	1,137	1,310	56	3,641
Guaranteed loans	3,945	7,228	15,998	1,954	29,125
Mortgage loans	2,570	4,119	8,370	1,581	16,640
Pledged loans	1,009	1,227	2,541	1,294	6,071
Total	**8,662**	**13,711**	**28,219**	**4,885**	**55,477**

	The Bank				
	31 December 2016				
	Overdue for 1 to 90 days (inclusive)	Overdue for 91 to 360 days (inclusive)	Overdue for 361 days to 3 years (inclusive)	Overdue for more than 3 years	Total
Unsecured loans	1,362	1,031	457	6	2,856
Guaranteed loans	6,507	10,261	11,603	1,050	29,421
Mortgage loans	3,057	6,484	8,678	559	18,778
Pledged loans	609	1,760	3,310	488	6,167
Total	**11,535**	**19,536**	**24,048**	**2,103**	**57,222**

Notes:If the principal or interest of any period of a loan is overdue for one day or above, the whole loan shall be classified as an overdue loan.

(5) Credit quality of loans and advances to customers

		The Group	
	Note	31 December 2017	31 December 2016
Neither overdue nor impaired	(i)	1,337,818	1,159,038
Overdue but not impaired	(ii)	31,667	37,268
Impaired	(iii)	24,597	20,348
Total loans and advances to customers		**1,394,082**	**1,216,654**

		The Bank	
	Note	31 December 2017	31 December 2016
Neither overdue nor impaired	(i)	1,281,342	1,112,958
Overdue but not impaired	(ii)	31,628	37,210
Impaired	(iii)	24,446	20,229
Total loans and advances to customers		**1,337,416**	**1,170,397**

Notes: If the principal or interest of any period of a loan is overdue for one day or above, the whole loan shall be classified as an overdue loan.

(i) Loans and advances neither overdue nor impaired

		The Group	
		31 December 2017	
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Corporate loans and advances	1,021,373	(17,275)	1,004,098
Personal loans and advances	316,445	(3,994)	312,451
Total	**1,337,818**	**(21,269)**	**1,316,549**

		The Group	
		31 December 2016	
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Corporate loans and advances	919,117	(15,228)	903,889
Personal loans and advances	239,921	(3,287)	236,634
Total	**1,159,038**	**(18,515)**	**1,140,523**

		The Bank	
		31 December 2017	
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Corporate loans and advances	965,649	(15,953)	949,696
Personal loans and advances	315,693	(3,975)	311,718
Total	**1,281,342**	**(19,928)**	**1,261,414**

	The Bank		
	31 December 2016		
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Corporate loans and advances	873,575	(14,131)	859,444
Personal loans and advances	239,383	(3,273)	236,110
Total	**1,112,958**	**(17,404)**	**1,095,554**

(ii) Loans and advances overdue but not impaired

Analysis on term of overdue but unimpaired loans and advances to customers is as follows:

	31 December 2017 (the Group)					
	Overdue for no more than 30 days	Overdue for 31 to 60 days (inclusive)	Overdue for 61 to 90 days (inclusive)	Overdue for more than 90 days	Total	Fair value of collaterals
Corporate loans and advances	3,114	1,657	2,275	22,267	29,313	27,109
Personal loans and advances	808	350	301	895	2,354	2,425
Total	**3,922**	**2,007**	**2,576**	**23,162**	**31,667**	**29,534**

	31 December 2016 (the Group)					
	Overdue for no more than 30 days	Overdue for 31 to 60 days (inclusive)	Overdue for 61 to 90 days (inclusive)	Overdue for more than 90 days	Total	Fair value of collaterals
Corporate loans and advances	3,984	2,746	2,735	24,870	34,335	30,404
Personal loans and advances	1,161	422	411	939	2,933	2,164
Total	**5,145**	**3,168**	**3,146**	**25,809**	**37,268**	**32,568**

	31 December 2017 (the Bank)					
	Overdue for no more than 30 days	Overdue for 31 to 60 days (inclusive)	Overdue for 61 to 90 days (inclusive)	Overdue for more than 90 days	Total	Fair value of collaterals
Corporate loans and advances	3,098	1,640	2,271	22,267	29,276	27,107
Personal loans and advances	808	348	301	895	2,352	2,425
Total	**3,906**	**1,988**	**2,572**	**23,162**	**31,628**	**29,532**

	31 December 2016 (the Bank)					
	Overdue for no more than 30 days	Overdue for 31 to 60 days (inclusive)	Overdue for 61 to 90 days (inclusive)	Overdue for more than 90 days	Total	Fair value of collaterals
Corporate loans and advances	3,984	2,739	2,734	24,826	34,283	30,398
Personal loans and advances	1,161	422	406	938	2,927	2,163
Total	**5,145**	**3,161**	**3,140**	**25,764**	**37,210**	**32,561**

(iii) Impaired loans and advances to customers

	The Group 31 December 2017		
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Individual assessment	20,247	(9,599)	10,648
Collective assessment	4,350	(3,530)	820
Total	**24,597**	**(13,129)**	**11,468**

	The Group 31 December 2016		
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Individual assessment	17,545	(8,403)	9,142
Collective assessment	2,803	(2,090)	713
Total	**20,348**	**(10,493)**	**9,855**

Of which,

	The Group	
	31 December 2017	31 December 2016
Impaired loans assessed individually	20,247	17,545
Percentage of impaired loans assessed individually in total loans and advances to customers	1.45%	1.44%
Fair value of collateral	**19,691**	**15,892**

		The Bank	
		31 December 2017	
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Individual assessment	20,097	(9,492)	10,605
Collective assessment	4,349	(3,530)	819
Total	**24,446**	**(13,022)**	**11,424**

		The Bank	
		31 December 2016	
	Total loans and advances to customers	Allowance for impairment losses on loans and advances	Book value
Individual assessment	17,426	(8,319)	9,107
Collective assessment	2,803	(2,090)	713
Total	**20,229**	**(10,409)**	**9,820**

Of which,

	The Bank	
	31 December 2017	31 December 2016
Impaired loans assessed individually	20,097	17,426
Percentage of impaired loans assessed individually in total loans and advances to customers	1.50%	1.49%
Fair value of collateral	**19,621**	**15,853**

3.7 Credit quality of debt instruments

		The Group	
	Note	31 December 2017	31 December 2016
Neither overdue nor impaired	(1)	752,320	639,460
Overdue but not impaired	(2)	1	1
Impaired	(3)	1,382	1,650
Total amount of debt instruments		753,703	641,111
Less: Allowance for impairment losses of debt instruments		(2,017)	(1,031)
Individual assessment		(312)	(160)
Collective assessment		(1,705)	(871)
Book value of debt instruments		**751,686**	**640,080**

		The Bank	
	Note	31 December 2017	31 December 2016
Neither overdue nor impaired	(1)	752,020	638,560
Overdue but not impaired	(2)	1	1
Impaired	(3)	1,382	1,650
Total amount of debt instruments		753,403	640,211
Less: Allowance for impairment losses of debt instruments		(2,004)	(1,031)
Individual assessment		(312)	(160)
Collective assessment		(1,692)	(871)
Book value of debt instruments		**751,399**	**639,180**

(1) Neither overdue nor impaired debt instruments

	The Group				
	31 December 2017				
Type of debt instruments	**Financial assets measured at fair value through profit or loss**	**Available-for-sale financial assets**	**Held-to-maturity investments**	**Investments classified as receivables**	**Total**
Government bonds	–	11,510	272,173	202	283,885
Bonds of public entities and quasi-governments	92	35,872	60,621	–	96,585
Bonds of financial institutions	–	17,243	57,952	100	75,295
Corporate bonds	2,573	14,993	3,091	–	20,657
Certificates of deposit with banks and other financial institutions	–	17,601	7,671	–	25,272
Wealth management products	–	–	–	14,400	14,400
Beneficiary rights of assets	–	–	–	70,893	70,893
Asset management plan of financial institutions	–	–	–	165,333	165,333
Total	**2,665**	**97,219**	**401,508**	**250,928**	**752,320**

	The Group				
	31 December 2016				
Type of debt instruments	**Financial assets measured at fair value through profit or loss**	**Available-for-sale financial assets**	**Held-to-maturity investments**	**Investments classified as receivables**	**Total**
Government bonds	–	13,887	202,700	157	216,744
Bonds of public entities and quasi-governments	831	38,910	33,448	–	73,189
Bonds of financial institutions	–	8,168	41,130	1,500	50,798
Corporate bonds	4,107	16,659	1,000	–	21,766
Certificates of deposit with banks and other financial institutions	–	14,548	67,315	–	81,863
Wealth management products	–	–	–	76,205	76,205
Beneficiary rights of assets	–	–	–	37,635	37,635
Asset management plan of financial institutions	–	–	–	81,260	81,260
Total	**4,938**	**92,172**	**345,593**	**196,757**	**639,460**

	The Bank				
	31 December 2017				
Type of debt instruments	**Financial assets measured at fair value through profit or loss**	**Available-for-sale financial assets**	**Held-to-maturity investments**	**Investments classified as receivables**	**Total**
Government bonds	–	11,510	272,173	202	283,885
Bonds of public entities and quasi-governments	92	35,872	60,621	–	96,585
Bonds of financial institutions	–	17,243	58,552	100	75,895
Corporate bonds	2,573	14,993	3,091	–	20,657
Certificates of deposit with banks and other financial institutions	–	17,601	7,671	–	25,272
Wealth management products	–	–	–	14,400	14,400
Beneficiary rights of assets	–	–	–	69,993	69,993
Asset management plan of financial institutions	–	–	–	165,333	165,333
Total	**2,665**	**97,219**	**402,108**	**250,028**	**752,020**

	The Bank				
	31 December 2016				
Type of debt instruments	**Financial assets measured at fair value through profit or loss**	**Available-for-sale financial assets**	**Held-to-maturity investments**	**Investments classified as receivables**	**Total**
Government bonds	–	13,887	202,700	157	216,744
Bonds of public entities and quasi-governments	831	38,910	33,448	–	73,189
Bonds of financial institutions	–	8,168	41,130	1,500	50,798
Corporate bonds	4,107	16,659	1,000	–	21,766
Certificates of deposit with banks and other financial institutions	–	14,548	67,315	–	81,863
Wealth management products	–	–	–	76,205	76,205
Beneficiary rights of assets	–	–	–	36,735	36,735
Asset management plan of financial institutions	–	–	–	81,260	81,260
Total	**4,938**	**92,172**	**345,593**	**195,857**	**638,560**

(2) Debt instruments overdue but not impaired

	The Group and the Bank 31 December 2017				
Type of debt instruments	**Financial assets measured at fair value through profit or loss**	**Available-for-sale financial assets**	**Held-to-maturity investments**	**Investments classified as receivables**	**Total**
Bonds of financial institutions	1	–	–	–	1
Total	**1**	**–**	**–**	**–**	**1**

	The Group and the Bank 31 December 2016				
Type of debt instruments	**Financial assets measured at fair value through profit or loss**	**Available-for-sale financial assets**	**Held-to-maturity investments**	**Investments classified as receivables**	**Total**
Bonds of financial institutions	1	–	–	–	1
Total	**1**	**–**	**–**	**–**	**1**

(3) Impaired debt instruments

	The Group and the Bank 31 December 2017				
Type of debt instruments	**Financial assets measured at fair value through profit or loss**	**Available-for-sale financial assets**	**Held-to-maturity investments**	**Investments classified as receivables**	**Total**
Beneficiary rights of assets	–	–	–	383	383
Asset management plan of financial institutions	–	–	–	999	999
Less: Allowance for impairment losses	–	–	–	(312)	(312)
Total	**–**	**–**	**–**	**1,070**	**1,070**

Type of debt instruments	The Group and the Bank 31 December 2016 Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Investments classified as receivables	Total
Beneficiary rights of assets	–	–	–	652	652
Asset management plan of financial institutions	–	–	–	998	998
Less: Allowance for impairment losses	–	–	–	(160)	(160)
Total	**–**	**–**	**–**	**1,490**	**1,490**

(4) The debt instruments are classified based on credit ratings of credit rating agencies widely accepted in the market

	The Group 31 December 2017 No rating	AAA	AA	A	Lower than A	Total
Government bonds	248,756	35,129	–	–	–	283,885
Bonds of public entities and quasi-governments	91,540	5,045	–	–	–	96,585
Bonds of financial institutions	3,225	71,080	991	–	–	75,296
Corporate bonds	8,177	8,879	3,601	–	–	20,657
Certificates of deposit with banks and other financial institutions	25,272	–	–	–	–	25,272
Wealth management products	14,400	–	–	–	–	14,400
Beneficiary rights of assets	71,276	–	–	–	–	71,276
Asset management plan of financial institutions	166,332	–	–	–	–	166,332
Total	**628,978**	**120,133**	**4,592**	**–**	**–**	**753,703**

	The Group					
	31 December 2016					
	No rating	AAA	AA	A	Lower than A	Total
Government bonds	173,555	43,189	–	–	–	216,744
Bonds of public entities and quasi-governments	70,296	2,893	–	–	–	73,189
Bonds of financial institutions	1,923	46,757	2,119	–	–	50,799
Corporate bonds	12,260	7,490	1,965	30	21	21,766
Certificates of deposit with banks and other financial institutions	81,863	–	–	–	–	81,863
Wealth management products	76,205	–	–	–	–	76,205
Beneficiary rights of assets	38,287	–	–	–	–	38,287
Asset management plan of financial institutions	82,258	–	–	–	–	82,258
Total	**536,647**	**100,329**	**4,084**	**30**	**21**	**641,111**

	The Bank					
	31 December 2017					
	No rating	AAA	AA	A	Lower than A	Total
Government bonds	248,756	35,129	–	–	–	283,885
Bonds of public entities and quasi-governments	91,540	5,045	–	–	–	96,585
Bonds of financial institutions	3,225	71,680	991	–	–	75,896
Corporate bonds	8,177	8,879	3,601	–	–	20,657
Certificates of deposit with banks and other financial institutions	25,272	–	–	–	–	25,272
Wealth management products	14,400	14,400				
Beneficiary rights of assets	70,376	–	–	–	–	70,376
Asset management plan of financial institutions	166,332					166,332
Total	**628,078**	**120,733**	**4,592**	**–**	**–**	**753,403**

	The Bank					
	31 December 2016					
	No rating	**AAA**	**AA**	**A**	**Lower than A**	**Total**
Government bonds	173,555	43,189	–	–	–	216,744
Bonds of public entities and quasi-governments	70,296	2,893	–	–	–	73,189
Bonds of financial institutions	1,923	46,757	2,119	–	–	50,799
Corporate bonds	12,260	7,490	1,965	30	21	21,766
Certificates of deposit with banks and other financial institutions	81,863	–	–	–	–	81,863
Wealth management products	76,205	–	–	–	–	76,205
Beneficiary rights of assets	37,387	–	–	–	–	37,387
Asset management plan of financial institutions	82,258	–	–	–	–	82,258
Total	**535,747**	**100,329**	**4,084**	**30**	**21**	**640,211**

3.8 Renegotiated financial assets

The carrying amount of the financial assets which were identified as overdue or impaired and have been subject to concession arrangement with borrowers or changed guarantee conditions is as follows:

	31 December 2017	**31 December 2016**
Loans and advances	237	189

4. Liquidity risk

Liquidity risk is the risk that funds will not be available to make repayments when liabilities fall due. Liquidity risk may be resulted from mismatch of cash flows or terms between assets and liabilities.

The Bank has established the Asset & Liabilities Management Committee which is responsible for formulation, organization and implementation of the administrative policies on liquidity risk, established multi-channel financing mechanism, and designed a series of daily liquidity monitoring indicator systems complying with the actuality of the Bank based on the applicability principle, in accordance with the indicator system on liquidity risk monitoring of regulatory authorities. Meanwhile, taking into account both the economic efficiency and liquidity, the Bank held some government bonds and central bank bills in the assets portfolio, which could not only achieve stable investment income, but also be sold off or repurchased in the secondary market at any time to fulfill the liquidity requirements.

4.1 Liquidity analysis

(1) Maturity analysis

The table below analyzes the carrying amount of financial assets and liabilities during the residual maturity from the end of reporting period to expiry date of contract:

	The Group 31 December 2017							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	203,074	20,926	–	–	1,837	–	–	225,837
Due from banks	–	11,919	26,969	8,879	9,099	–	–	56,866
Placements with banks and other financial institutions	–	–	13,011	2,059	150	–	–	15,220
Financial assets measured at fair value through profit or loss	1	540	41	221	1,157	1,135	111	3,206
Derivative financial assets	–	–	365	285	2,265	341	–	3,256
Financial assets held under resale agreements	306	–	39,897	–	–	–	–	40,203
Loans and advances	38,626	–	128,770	104,011	410,391	460,776	213,011	1,355,585
Available-for-sale financial assets	82	13,018	3,833	5,918	30,409	46,931	10,121	110,312
Held-to-maturity investments	–	–	5,958	8,326	49,289	217,637	120,283	401,493
Account receivable held for investment	1,070	–	7,292	8,072	66,482	105,758	61,641	250,315
Other financial assets	2,541	7,324	5,088	2,669	4,606	574	9	22,811
Total financial assets	**245,700**	**53,727**	**231,224**	**140,440**	**575,685**	**833,152**	**405,176**	**2,485,104**
Financial liabilities								
Due to central banks	–	–	5,000	5,000	106,019	–	–	116,019
Due to banks and other financial institutions	–	16,681	125,552	102,234	45,817	6,117	–	296,401
Derivative financial assets	–	–	186	411	956	143	–	1,696
Financial assets sold under repurchase agreements	–	–	69,592	410	–	–	–	70,002
Deposits taken	–	907,840	75,897	124,372	246,034	79,764	–	1,433,907
Debt obligations payable	–	–	60,049	103,092	103,348	103,200	–	369,689
Other financial assets	–	18,434	2,531	2,663	5,857	8,797	1,019	39,301
Total financial liabilities	**–**	**942,955**	**338,807**	**338,182**	**508,031**	**198,021**	**1,019**	**2,327,015**
Net position	**245,700**	**(889,228)**	**(107,583)**	**(197,742)**	**67,654**	**635,131**	**404,157**	**158,089**

	The Group							
	31 December 2016							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	193,636	26,529	–	–	2,008	–	–	222,173
Due from banks	–	12,467	54,980	45,456	20,877	–	–	133,780
Placements with banks and other financial institutions	–	–	15,575	245	48	–	–	15,868
Financial assets measured at fair value through profit or loss	1	–	215	492	965	2,326	940	4,939
Derivative financial assets	–	–	120	100	502	81	–	803
Financial assets held under resale agreements	306	–	121,668	–	58	–	–	122,032
Loans and advances	43,665	–	94,994	93,856	368,266	400,366	183,208	1,184,355
Available-for-sale financial assets	82	–	2,774	7,640	24,787	44,994	11,975	92,252
Held-to-maturity investments	–	–	9,873	14,518	68,369	139,917	112,916	345,593
Account receivable held for investment	1,490	–	21,116	54,462	38,070	58,158	24,082	197,378
Other financial assets	2,280	3,303	4,975	2,702	3,534	299	47	17,140
Total financial assets	**241,460**	**42,299**	**326,290**	**219,471**	**527,484**	**646,141**	**333,168**	**2,336,313**
Financial liabilities								
Due to central banks	–	–	20,000	18,000	70,005	–	–	108,005
Due to banks and other financial institutions	–	21,962	185,571	34,569	52,330	3,831	–	298,263
Derivative financial assets	–	–	140	180	623	150	–	1,093
Financial assets sold under repurchase agreements	–	–	103,786	2,735	175	–	–	106,696
Deposits taken	–	802,577	73,774	119,927	259,619	112,403	–	1,368,300
Debt obligations payable	–	–	25,559	46,774	138,651	57,200	–	268,184
Other financial assets	–	19,149	2,981	4,667	3,517	8,024	772	39,110
Total financial liabilities	**–**	**843,688**	**411,811**	**226,852**	**524,920**	**181,608**	**772**	**2,189,651**
Net position	**241,460**	**(801,389)**	**(85,521)**	**(7,381)**	**2,564**	**464,533**	**332,396**	**146,662**

	The Bank							
	31 December 2017							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	202,903	20,642	–	–	1,837	–	–	225,382
Due from banks	–	11,858	25,940	8,810	9,219	–	–	55,827
Placements with banks and other financial institutions	–	–	13,011	2,059	150	–	–	15,220
Financial assets measured at fair value through profit or loss	1	540	41	221	1,157	1,135	111	3,206
Derivative financial assets	–	–	365	285	2,265	341	–	3,256
Financial assets held under resale agreements	306	–	39,897	–	–	–	–	40,203
Loans and advances	38,545	–	126,587	101,085	398,945	427,120	208,086	1,300,368
Available-for-sale financial assets	82	13,018	3,833	5,918	30,409	46,931	10,121	110,312
Held-to-maturity investments	–	–	5,958	8,326	49,289	218,237	120,283	402,093
Account receivable held for investment	1,070	–	7,293	8,072	66,482	105,757	60,754	249,428
Other financial assets	2,541	6,065	5,054	2,672	4,606	574	9	21,521
Total financial assets	**245,448**	**52,123**	**227,979**	**137,448**	**564,359**	**800,095**	**399,364**	**2,426,816**
Financial liabilities								
Due to central banks	–	–	5,000	5,000	106,000	–	–	116,000
Due to banks and other financial institutions	–	17,117	123,950	95,417	18,367	–	–	254,851
Derivative financial assets	–	–	186	411	956	143	–	1,696
Financial assets sold under repurchase agreements	–	–	69,592	410	–	–	–	70,002
Deposits taken	–	909,745	75,531	124,229	245,569	79,609	–	1,434,683
Debt obligations payable	–	–	60,049	103,092	103,348	103,200	–	369,689
Other financial assets	–	14,536	2,143	2,453	4,903	5,443	76	29,554
Total financial liabilities	**–**	**941,398**	**336,451**	**331,012**	**479,143**	**188,395**	**76**	**2,276,475**
Net position	**245,448**	**(889,275)**	**(108,472)**	**(193,564)**	**85,216**	**611,700**	**399,288**	**150,341**

	The Bank							
	31 December 2016							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	193,462	25,986	–	–	2,008	–	–	221,456
Due from banks	–	12,426	54,940	45,420	20,877	–	–	133,663
Placements with banks and other financial institutions	–	–	15,575	245	48	–	–	15,868
Financial assets measured at fair value through profit or loss	1	–	215	492	965	2,326	940	4,939
Derivative financial assets	–	–	120	100	502	81	–	803
Financial assets held under resale agreements	306	–	121,668	–	58	–	–	122,032
Loans and advances	43,603	–	93,747	91,387	358,621	373,442	178,501	1,139,301
Available-for-sale financial assets	82	–	2,774	7,640	24,787	44,994	11,975	92,252
Held-to-maturity investments	–	–	9,873	14,518	68,370	139,916	112,916	345,593
Account receivable held for investment	1,490	–	21,116	54,462	38,070	58,158	23,182	196,478
Other financial assets	2,280	3,034	4,963	2,702	3,534	299	47	16,859
Total financial assets	**241,224**	**41,446**	**324,991**	**216,966**	**517,840**	**619,216**	**327,561**	**2,289,244**
Financial liabilities								
Due to central banks	–	–	20,000	18,000	70,000	–	–	108,000
Due to banks and other financial institutions	–	22,187	185,240	28,804	26,677	680	–	263,588
Derivative financial assets	–	–	140	180	623	150	–	1,093
Financial assets sold under repurchase agreements	–	–	103,786	2,735	175	–	–	106,696
Deposits taken	–	801,026	73,720	119,783	259,213	112,266	–	1,366,008
Debt obligations payable	–	–	25,559	46,774	138,651	57,200	–	268,184
Other financial assets	–	19,131	2,642	4,361	2,247	4,709	89	33,179
Total financial liabilities	**–**	**842,344**	**411,087**	**220,637**	**497,586**	**175,005**	**89**	**2,146,748**
Net position	**241,224**	**(800,898)**	**(86,096)**	**(3,671)**	**20,254**	**444,211**	**327,472**	**142,496**

(2) Undiscounted contract cash flows classified by expiry date of contract

The table below presents the undiscounted cash flows of non-derivative financial assets and liabilities during the residual maturity from the end of reporting period to expiry date of the contract:

	The Group							
	31 December 2017							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	203,074	20,926	–	–	1,837	–	–	225,837
Due from banks	–	11,919	27,184	8,997	9,393	–	–	57,493
Placements with banks and other financial institutions	–	–	13,021	2,085	154	–	–	15,260
Financial assets measured at fair value through profit or loss	1	540	43	242	1,256	1,245	124	3,451
Financial assets held under resale agreements	307	–	39,931	–	–	–	–	40,238
Loans and advances	40,819	–	134,714	113,774	447,551	546,503	286,177	1,569,538
Available-for-sale financial assets	82	13,018	4,305	6,429	32,618	53,037	12,371	121,860
Held-to-maturity investments	–	–	6,667	10,175	61,186	255,578	173,319	506,925
Account receivable held for investment	1,070	–	8,302	10,242	75,104	130,975	70,287	295,980
Other financial assets	115	7,324	–	–	–	10	–	7,449
Total financial assets	**245,468**	**53,727**	**234,167**	**151,944**	**629,099**	**987,348**	**542,278**	**2,844,031**
Financial liabilities								
Due to central banks	–	–	5,158	5,158	109,463	–	–	119,779
Due to banks and other financial institutions	–	16,712	126,844	103,805	47,558	6,915	–	301,834
Financial assets sold under repurchase agreements	–	–	69,740	412	–	–	–	70,152
Deposits taken	–	908,330	78,377	128,369	255,524	93,505	–	1,464,105
Debt obligations payable	–	–	60,160	105,251	108,541	114,390	–	388,342
Other financial assets	–	17,914	355	127	724	3,282	1,019	23,421
Total financial liabilities	**–**	**942,956**	**340,634**	**343,122**	**521,810**	**218,092**	**1,019**	**2,367,633**
Net position	**245,468**	**(889,229)**	**(106,467)**	**(191,178)**	**107,289**	**769,256**	**541,259**	**476,398**

	The Group							
	31 December 2016							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	193,636	26,529	–	–	2,008	–	–	222,173
Due from banks	–	12,509	55,367	46,058	21,410	–	–	135,344
Placements with banks and other financial institutions	–	–	15,592	247	50	–	–	15,889
Financial assets measured at fair value through profit or loss	1	–	220	523	1,150	2,683	1,060	5,637
Financial assets held under resale agreements	307	–	123,564	–	60	–	–	123,931
Loans and advances	45,209	–	98,642	99,753	389,796	443,797	233,897	1,311,094
Available-for-sale financial assets	82	–	3,184	8,183	26,620	50,497	13,803	102,369
Held-to- maturity investments	–	–	10,462	16,167	75,407	168,970	165,776	436,782
Account receivable held for investment	1,508	–	21,358	55,168	40,035	67,073	35,460	220,602
Other financial assets	62	3,260	–	–	–	10	–	3,332
Total financial assets	**240,805**	**42,298**	**328,389**	**226,099**	**556,536**	**733,030**	**449,996**	**2,577,153**
Financial liabilities								
Due to central banks	–	–	20,478	18,308	71,366	–	–	110,152
Due to banks and other financial institutions	–	21,973	186,875	35,318	53,637	4,311	–	302,114
Financial assets sold under repurchase agreements	–	–	104,750	2,800	176	–	–	107,726
Deposits taken	–	802,911	76,831	125,645	267,460	126,514	–	1,399,361
Debt obligations payable	–	–	25,639	48,656	146,025	62,863	–	283,183
Other financial assets	–	18,804	292	190	1,137	3,260	772	24,455
Total financial liabilities	**–**	**843,688**	**414,865**	**230,917**	**539,801**	**196,948**	**772**	**2,226,991**
Net position	**240,805**	**(801,390)**	**(86,476)**	**(4,818)**	**16,735**	**536,082**	**449,224**	**350,162**

	The Bank							
	31 December 2017							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	202,903	20,642	–	–	1,837	–	–	225,382
Due from banks	–	11,859	26,154	8,929	9,516	–	–	56,458
Placements with banks and other financial institutions	–	–	13,021	2,085	154	–	–	15,260
Financial assets measured at fair value through profit or loss	1	540	43	242	1,256	1,245	124	3,451
Financial assets held under resale agreements	307	–	39,931	–	–	–	–	40,238
Loans and advances	40,738	–	132,230	110,255	433,670	505,945	278,312	1,501,150
Available-for-sale financial assets	82	13,018	4,305	6,429	32,618	53,037	12,371	121,860
Held-to- maturity investments	–	–	6,674	10,175	61,208	256,185	173,319	507,561
Account receivable held for investment	1,070	–	8,302	10,242	75,050	130,759	68,914	294,337
Other financial assets	115	6,065	–	–	–	10	–	6,190
Total financial assets	**245,216**	**52,124**	**230,660**	**148,357**	**615,309**	**947,181**	**533,040**	**2,771,887**
Financial liabilities								
Due to central banks	–	–	5,158	5,158	109,462	–	–	119,778
Due to banks and other financial institutions	–	17,149	125,133	96,700	18,821	–	–	257,803
Financial assets sold under repurchase agreements	–	–	69,740	412	–	–	–	70,152
Deposits taken	–	910,227	77,999	128,208	255,021	93,252	–	1,464,707
Debt obligations payable	–	–	60,160	105,251	108,541	114,390	–	388,342
Other financial assets	–	14,014	–	1	4	13	76	14,108
Total financial liabilities	**–**	**941,390**	**338,190**	**335,730**	**491,849**	**207,655**	**76**	**2,314,890**
Net position	**245,216**	**(889,266)**	**(107,530)**	**(187,373)**	**123,460**	**739,526**	**532,964**	**456,997**

	The Bank							
	31 December 2016							
	Overdue/ unlimited duration	Repayment on demand	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
Financial assets								
Cash on hand and balances with central banks	193,462	25,986	–	–	2,008	–	–	221,456
Due from banks	–	12,467	55,327	46,022	21,410	–	–	135,226
Placements with banks and other financial institutions	–	–	15,592	247	50	–	–	15,889
Financial assets measured at fair value through profit or loss	1	–	220	523	1,150	2,683	1,060	5,637
Financial assets held under resale agreements	307	–	123,564	–	60	–	–	123,931
Loans and advances	45,185	–	98,573	99,551	388,904	443,556	233,879	1,309,648
Available-for-sale financial assets	82	–	3,184	8,183	26,620	50,497	13,803	102,369
Held-to-maturity investments	–	–	10,462	16,167	75,407	168,970	165,776	436,782
Account receivable held for investment	1,508	–	21,358	55,168	39,981	66,857	34,020	218,892
Other financial assets	62	2,991	–	–	–	10	–	3,063
Total financial assets	**240,607**	**41,444**	**328,280**	**225,861**	**555,590**	**732,573**	**448,538**	**2,572,893**
Financial liabilities								
Due to central banks	–	–	20,478	18,308	71,366	–	–	110,152
Due to banks and other financial institutions	–	22,197	186,437	29,315	27,265	743	–	265,957
Financial assets sold under repurchase agreements	–	–	104,750	2,800	176	–	–	107,726
Deposits taken	–	801,360	76,777	125,499	267,042	126,360	–	1,397,038
Debt obligations payable	–	–	25,639	48,656	146,025	62,863	–	283,183
Other financial assets	–	18,786	–	–	4	6	89	18,885
Total financial liabilities	**–**	**842,343**	**414,081**	**224,578**	**511,878**	**189,972**	**89**	**2,182,941**
Net position	**240,607**	**(800,899)**	**(85,801)**	**1,283**	**43,712**	**542,601**	**448,449**	**389,952**

Assets that can be used for repaying all liabilities and fulfilling outstanding loan commitment include cash on hand and balance with central banks, due from and placements with banks and other financial institutions and financial assets measured at fair value through profit or loss, etc. In normal operation, most due deposits are still retained within the Group instead of withdrawn immediately on the maturity date. Besides, available-for-sale financial assets can be disposed of when necessary to repay matured debts.

4.2 Off-balance-sheet items

Off-balance-sheet items of the Group mainly include bank acceptance bills, letter of credit issued, letter of guarantee issued, irrevocable loan commitments and unused credit card limit. Amounts of off-balance-sheet items are presented in the table below by residual maturity of contract:

	The Group			
	31 December 2017			
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	237,638	–	–	237,638
Letters of credit issued	74,890	917	–	75,807
Letters of guarantee issued	12,522	9,343	24	21,889
Irrevocable loan commitments	2,409	200	–	2,609
Unused credit card limit	143,380	–	–	143,380
Total	**470,839**	**10,460**	**24**	**481,323**

	The Group			
	31 December 2016			
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	273,235	–	–	273,235
Letters of credit issued	72,733	775	–	73,508
Letters of guarantee issued	12,637	7,963	23	20,623
Irrevocable loan commitments	5,269	–	–	5,269
Unused credit card limit	103,363	–	–	103,363
Total	**467,237**	**8,738**	**23**	**475,998**

	The Bank			
	31 December 2017			
	No more than 1 year	1 – 5 years	Over 5 years	Total
Bank acceptance drafts	238,637	–	–	238,637
Letters of credit issued	74,890	917	–	75,807
Letters of guarantee issued	12,516	9,343	24	21,883
Irrevocable loan commitments	481	200	–	681
Unused credit card limit	143,380	–	–	143,380
Total	**469,904**	**10,460**	**24**	**480,388**

	The Bank			
	31 December 2016			
	No more than 1 year	**1 – 5 years**	**Over 5 years**	**Total**
Bank acceptance drafts	273,424	–	–	273,424
Letters of credit issued	72,733	775	–	73,508
Letters of guarantee issued	12,637	7,963	23	20,623
Irrevocable loan commitments	2,507	–	–	2,507
Unused credit card limit	103,363	–	–	103,363
Total	**464,664**	**8,738**	**23**	**473,425**

5. Market risk

Market risk means the possibility of loss to the Group's on- and off-balance-sheet businesses that results from changes in the market prices (including exchange rate, interest rate, commodity price and stock price). Market risk of the Group mainly consists of exchange rate risk and interest rate risk. Exchange rate risk of the Group mainly refers to risk of loss caused by exchange rate fluctuation in exposure of assets and liabilities denominated in foreign currency. Interest rate risk mainly refers to risk of loss caused by interest rate fluctuation arising from mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities.

5.1 Exchange rate risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and other currencies. Transactions in foreign currencies mainly include the Group's treasury operation exposure and foreign exchange business.

As for the business varieties involving exchange rate risk, the Group strictly manages various links of development, launching and operation, and formulates necessary risk control system in terms of business authorization, exposure limits and process monitoring. The Bank divides its foreign exchange trading businesses between banking book and trading book and the foreign exchange exposure of the whole bank is managed by the Head Office in a unified manner.

At the end of the reporting period, exchange rate risk of financial assets and financial liabilities is as follows:

	The Group				
	31 December 2017				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	205,232	20,512	47	46	225,837
Due from banks	43,377	11,518	356	1,615	56,866
Placements with banks and other financial institutions	15,161	59	–	–	15,220
Financial assets measured at fair value through profit or loss	3,205	1	–	–	3,206
Derivative financial assets	9	3,234	–	13	3,256
Financial assets held under resale agreements	40,203	–	–	–	40,203
Loans and advances	1,332,863	20,591	32	2,099	1,355,585
Available-for-sale financial assets	108,654	1,658	–	–	110,312
Held-to-maturity investments	399,137	2,356	–	–	401,493
Account receivable for investment	250,230	85	–	–	250,315
Other financial assets	22,478	333	–	–	22,811
Total financial assets	**2,420,549**	**60,347**	**435**	**3,773**	**2,485,104**
Due to central banks	116,019	–	–	–	116,019
Due to banks and other financial institutions	281,981	13,287	33	1,100	296,401
Derivative financial assets	10	1,677	–	9	1,696
Financial assets sold under repurchase agreements	70,002	–	–	–	70,002
Deposits taken	1,401,554	30,202	384	1,767	1,433,907
Debt obligations payable	369,689	–	–	–	369,689
Other financial assets	36,972	1,094	5	1,230	39,301
Total financial liabilities	**2,276,227**	**46,260**	**422**	**4,106**	**2,327,015**
Net exposure	**144,322**	**14,087**	**13**	**(333)**	**158,089**

	The Group				
	31 December 2016				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	200,336	21,730	60	47	222,173
Due from banks	122,345	10,172	447	816	133,780
Placements with banks and other financial institutions	15,720	148	–	–	15,868
Financial assets measured at fair value through profit or loss	4,938	1	–	–	4,939
Derivative financial assets	15	775	–	13	803
Financial assets held under resale agreements	122,032	–	–	–	122,032
Loans and advances	1,166,573	17,357	68	357	1,184,355
Available-for-sale financial assets	91,900	352	–	–	92,252
Held-to-maturity investments	345,579	14	–	–	345,593
Account receivable held for investment	197,378	–	–	–	197,378
Other financial assets	16,720	419	–	1	17,140
Total financial assets	**2,283,536**	**50,968**	**575**	**1,234**	**2,336,313**
Due to central banks	108,005	–	–	–	108,005
Due to banks and other financial institutions	294,741	3,315	70	137	298,263
Derivative financial assets	15	1,032	–	46	1,093
Financial assets sold under repurchase agreements	106,696	–	–	–	106,696
Deposits taken	1,341,032	25,599	545	1,124	1,368,300
Debt obligations payable	268,184	–	–	–	268,184
Other financial assets	37,626	859	2	623	39,110
Total financial liabilities	**2,156,299**	**30,805**	**617**	**1,930**	**2,189,651**
Net exposure	**127,237**	**20,163**	**(42)**	**(696)**	**146,662**

	The Bank				
	31 December 2017				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	204,777	20,512	47	46	225,382
Due from banks	42,338	11,518	356	1,615	55,827
Placements with banks and other financial institutions	15,161	59	–	–	15,220
Financial assets measured at fair value through profit or loss	3,205	1	–	–	3,206
Derivative financial assets	9	3,234	–	13	3,256
Financial assets held under resale agreements	40,203	–	–	–	40,203
Loans and advances	1,277,646	20,591	32	2,099	1,300,368
Available-for-sale financial assets	108,654	1,658	–	–	110,312
Held-to- maturity investments	399,737	2,356	–	–	402,093
Account receivable held for investment	249,343	85	–	–	249,428
Other financial assets	21,186	333	–	2	21,521
Total financial assets	**2,362,259**	**60,347**	**435**	**3,775**	**2,426,816**
Due to central banks	116,000	–	–	–	116,000
Due to banks and other financial institutions	240,431	13,287	33	1,100	254,851
Derivative financial assets	10	1,677	–	9	1,696
Financial assets sold under repurchase agreements	70,002	–	–	–	70,002
Deposits taken	1,402,330	30,202	384	1,767	1,434,683
Debt obligations payable	369,689	–	–	–	369,689
Other financial assets	27,225	1,094	5	1,230	29,554
Total financial liabilities	**2,225,687**	**46,260**	**422**	**4,106**	**2,276,475**
Net exposure	**136,572**	**14,087**	**13**	**(331)**	**150,341**

	The Bank				
	31 December 2016				
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currency (RMB equivalent)	Total
Cash on hand and balances with central banks	199,619	21,730	60	47	221,456
Due from banks	122,228	10,172	447	816	133,663
Placements with banks and other financial institutions	15,720	148	–	–	15,868
Financial assets measured at fair value through profit or loss	4,938	1	–	–	4,939
Derivative financial assets	15	775	–	13	803
Financial assets held under resale agreements	122,032	–	–	–	122,032
Loans and advances	1,121,519	17,357	68	357	1,139,301
Available-for-sale financial assets	91,900	352	–	–	92,252
Held-to-maturity investments	345,579	14	–	–	345,593
Account receivable held for investment	196,478	–	–	–	196,478
Other financial assets	16,439	419	–	1	16,859
Total financial assets	**2,236,467**	**50,968**	**575**	**1,234**	**2,289,244**
Due to central banks	108,000	–	–	–	108,000
Due to banks and other financial institutions	260,066	3,315	70	137	263,588
Derivative financial assets	15	1,032	–	46	1,093
Financial assets sold under repurchase agreements	106,696	–	–	–	106,696
Deposits taken	1,338,740	25,599	545	1,124	1,366,008
Debt obligations payable	268,184	–	–	–	268,184
Other financial assets	31,695	859	2	623	33,179
Total financial liabilities	**2,113,396**	**30,805**	**617**	**1,930**	**2,146,748**
Net exposure	**123,071**	**20,163**	**(42)**	**(696)**	**142,496**

The potential impact on pre-tax profit and shareholders' equity is presented below, in the case that the spot and forward exchange rates of RMB against all foreign currencies appreciate or depreciate by 5% at the same time.

	The Group and the Bank			
	2017		2016	
	Pre-tax profit	Equity	Pre-tax profit	Equity
Appreciation by 5%	171	171	(55)	(55)
Depreciation by 5%	(171)	(171)	55	55

Impact on pre-tax profit arises from impact of RMB exchange rate fluctuation on net exposure of monetary assets and liabilities and monetary derivative instruments denominated in foreign currency.

The impact on pre-tax profit is determined based on the assumption that the Group's exchange rate sensitive position and net position of monetary derivative instruments remain unchanged on balance sheet dates. The Group actively adjusts foreign currency exposure and applies proper derivative instruments to reduce the foreign exchange risk, based on the Management's judgment on the exchange rate fluctuation trend. Therefore, the sensitivity analysis above may deviate from the actualities to some extent.

5.2 Interest rate risk

The Group's interest rate risk mainly arises from the mismatches between the repricing dates of interest-generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB.

The Group intensified the cost control over interest-bearing liabilities management, established term and interest rate structure matching with the interest-bearing liabilities over the interest-generating assets management, optimized assets and liabilities portfolio management, and proactively developed fee-based business and non-interest rate sensitive financial products, so as to reduce the impact of interest rate risk on the Group's operation.

At the end of reporting periods, the expiry date of contract or repricing date (whichever is earlier) of financial assets and financial liabilities is as follows:

	The Group 31 December 2017						
	No more than 1 month	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Overdue/ non-interest generating**	**Total**
Cash on hand and balances with central banks	219,431	–	–	–	–	6,406	225,837
Due from banks	38,888	8,879	9,099	–	–	–	56,866
Placements with banks and other financial institutions	13,011	2,059	150	–	–	–	15,220
Financial assets measured at fair value through profit or loss	581	221	1,157	1,135	111	1	3,206
Derivative financial assets	–	–	–	–	–	3,256	3,256
Financial assets held under resale agreements	39,897	–	–	–	–	306	40,203
Loans and advances	648,405	221,408	190,459	163,986	19,839	111,488	1,355,585
Available-for-sale financial assets	24,826	9,089	29,029	39,941	7,345	82	110,312
Held-to- maturity investments	11,697	14,829	42,531	216,218	116,218	–	401,493
Account receivable held for investment	26,977	55,776	62,746	74,760	28,986	1,070	250,315
Other financial assets	770	–	–	–	–	22,041	22,811
Total financial assets	**1,024,483**	**312,261**	**335,171**	**496,040**	**172,499**	**144,650**	**2,485,104**
Due to central banks	5,000	5,000	106,019	–	–	–	116,019
Due to banks and other financial institutions	142,402	104,489	48,510	1,000	–	–	296,401
Derivative financial assets	–	–	–	–	–	1,696	1,696
Financial assets sold under repurchase agreements	69,592	410	–	–	–	–	70,002
Deposits taken	982,789	124,372	243,627	79,764	–	3,355	1,433,907
Debt obligations payable	60,049	110,292	97,348	102,000	–	–	369,689
Other financial assets	1,868	–	–	–	–	37,433	39,301
Total financial liabilities	**1,261,700**	**344,563**	**495,504**	**182,764**	**–**	**42,484**	**2,327,015**
Net position	**(237,217)**	**(32,302)**	**(160,333)**	**313,276**	**172,499**	**102,166**	**158,089**

	The Group						
	31 December 2016						
	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Overdue/ non-interest generating	Total
Cash on hand and balances with central banks	215,168	–	–	–	–	7,005	222,173
Due from banks	67,447	45,456	20,877	–	–	–	133,780
Placements with banks and other financial institutions	15,575	245	48	–	–	–	15,868
Financial assets measured at fair value through profit or loss	215	492	965	2,326	940	1	4,939
Derivative financial assets	–	–	–	–	–	803	803
Financial assets held under resale agreements	121,668	–	58	–	–	306	122,032
Loans and advances	363,758	179,938	337,049	188,706	23,193	91,711	1,184,355
Available-for-sale financial assets	6,115	11,709	25,276	38,177	10,893	82	92,252
Held-to- maturity investments	14,025	21,045	67,818	131,489	111,216	–	345,593
Account receivable held for investment	22,986	59,464	36,856	54,239	22,343	1,490	197,378
Other financial assets	539	–	–	–	–	16,601	17,140
Total financial assets	**827,496**	**318,349**	**488,947**	**414,937**	**168,585**	**117,999**	**2,336,313**
Due to central banks	20,000	18,000	70,005	–	–	–	108,005
Due to banks and other financial institutions	208,888	37,207	51,488	680	–	–	298,263
Derivative financial assets	–	–	–	–	–	1,093	1,093
Financial assets sold under repurchase agreements	103,786	2,735	175	–	–	–	106,696
Deposits taken	854,425	119,913	259,573	112,471	–	21,918	1,368,300
Debt obligations payable	25,559	54,074	138,551	50,000	–	–	268,184
Other financial assets	1,310	–	–	–	–	37,800	39,110
Total financial liabilities	**1,213,968**	**231,929**	**519,792**	**163,151**	**–**	**60,811**	**2,189,651**
Net position	**(386,472)**	**86,420**	**(30,845)**	**251,786**	**168,585**	**57,188**	**146,662**

	The Bank						
	31 December 2017						
	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Overdue/ non-interest generating	Total
Cash on hand and balances with central banks	218,987	–	–	–	–	6,395	225,382
Due from banks	37,798	8,810	9,219	–	–	–	55,827
Placements with banks and other financial institutions	13,011	2,059	150	–	–	–	15,220
Financial assets measured at fair value through profit or loss	581	221	1,157	1,135	111	1	3,206
Derivative financial assets	–	–	–	–	–	3,256	3,256
Financial assets held under resale agreements	39,897	–	–	–	–	306	40,203
Loans and advances	637,924	204,271	178,936	148,064	19,766	111,407	1,300,368
Available-for-sale financial assets	24,826	9,089	29,029	39,941	7,345	82	110,312
Held-to- maturity investments	11,697	14,829	42,531	216,818	116,218	–	402,093
Account receivable held for investment	26,977	55,776	61,859	74,760	28,986	1,070	249,428
Other financial assets	771	–	–	–	–	20,750	21,521
Total financial assets	**1,012,469**	**295,055**	**322,881**	**480,718**	**172,426**	**143,267**	**2,426,816**
Due to central banks	5,000	5,000	106,000	–	–	–	116,000
Due to banks and other financial institutions	141,067	95,417	18,367	–	–	–	254,851
Derivative financial assets	–	–	–	–	–	1,696	1,696
Financial assets sold under repurchase agreements	69,592	410	–	–	–	–	70,002
Deposits taken	984,330	124,228	243,161	79,609	–	3,355	1,434,683
Debt obligations payable	60,049	110,292	97,348	102,000	–	–	369,689
Other financial assets	1,869	–	–	–	–	27,685	29,554
Total financial liabilities	**1,261,907**	**335,347**	**464,876**	**181,609**	**–**	**32,736**	**2,276,475**
Net position	**(249,438)**	**(40,292)**	**(141,995)**	**299,109**	**172,426**	**110,531**	**150,341**

	The Bank						
	31 December 2016						
	No more than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Overdue/ non-interest generating	Total
Cash on hand and balances with central banks	214,462	–	–	–	–	6,994	221,456
Due from banks	67,366	45,420	20,877	–	–	–	133,663
Placements with banks and other financial institutions	15,575	245	48	–	–	–	15,868
Financial assets measured at fair value through profit or loss	215	492	965	2,326	940	1	4,939
Derivative financial assets	–	–	–	–	–	803	803
Financial assets held under resale agreements	121,668	–	58	–	–	306	122,032
Loans and advances	350,959	157,728	327,970	187,827	23,167	91,650	1,139,301
Available-for-sale financial assets	6,115	11,709	25,276	38,177	10,893	82	92,252
Held-to- maturity investments	14,025	21,045	67,818	131,489	111,216	–	345,593
Account receivable held for investment	22,986	59,464	35,956	54,239	22,343	1,490	196,478
Other financial assets	539	–	–	–	–	16,320	16,859
Total financial assets	**813,910**	**296,103**	**478,968**	**414,058**	**168,559**	**117,646**	**2,289,244**
Due to central banks	20,000	18,000	70,000	–	–	–	108,000
Due to banks and other financial institutions	207,427	28,804	26,677	680	–	–	263,588
Derivative financial assets	–	–	–	–	–	1,093	1,093
Financial assets sold under repurchase agreements	103,786	2,735	175	–	–	–	106,696
Deposits taken	852,828	119,782	259,213	112,267	–	21,918	1,366,008
Debt obligations payable	25,559	54,074	138,551	50,000	–	–	268,184
Other financial assets	1,310	–	–	–	–	31,869	33,179
Total financial liabilities	**1,210,910**	**223,395**	**494,616**	**162,947**	**–**	**54,880**	**2,146,748**
Net position	**(397,000)**	**72,708**	**(15,648)**	**251,111**	**168,559**	**62,766**	**142,496**

The table below presents the potential impact on net interest income and shareholders' equity in consideration of structure of the Group's interest-generating assets and interest-bearing liabilities at the end of the reporting period, in the case that the yield curves of all financial instruments go up or down in a parallel manner by 100 basis points.

	The Group			
	2017		2016	
	Net interest income	Equity	Net interest income	Equity
Up 100 basis points	(3,144)	(2,658)	(3,099)	(2,107)
Down 100 basis points	3,144	2,935	3,099	2,222

	The Bank			
	2017		2016	
	Net interest income	Equity	Net interest income	Equity
Up 100 basis points	(3,259)	(2,658)	(3,257)	(2,107)
Down 100 basis points	3,259	2,935	3,257	2,222

The sensitivity analysis on net interest income is conducted based on the reasonably possible changes in interest rates, with the assumption that the structure of financial assets and liabilities held at the end of the period remains unchanged.

Sensitivity analysis on equity is conducted based on the impact of interest rate change on changes in fair value of fixed-rate available-for-sale financial assets held on balance sheet dates after revaluation.

The above assumptions do not reflect the Group's policies on fund use and interest rate risk management. Therefore, the above analysis may deviate from the actualities to some extent.

In addition, the above analysis on impact of interest rate changes is only used as an example to demonstrate the estimated changes in net interest income and equity at various predicted yield levels and amidst the Group's current interest rate risk profile. Yet, it does not take into account the possible risk management measures the Management may take to reduce interest rate risk.

6. Capital management

Since 2013, the Group has managed capital in accordance with the *Regulation Governing Capital of Commercial Banks (Provisional)* issued by the CBRC. In particular, credit risk is measured by the weighting approach, market risk the standard approach and operational risk the basic indicator approach.

Capital composition of the Group is as follows:

Core tier-1 capital: share capital, capital reserve, other comprehensive income, surplus reserve, general risk reserve, retained profit and recognizable part of capital contribution from minority shareholders;

Other tier-1 capital: recognizable part of capital contribution from other equity instruments and minority shareholders;

Tier-2 capital: tier-2 capital instruments and premium thereof, excessive allowance for impairment losses on loans and recognizable part of capital contribution from minority shareholders.

Net capital is calculated by deducting corresponding capital deductions from capital at all levels in accordance with the Regulation Governing Capital of Commercial Banks (Provisional).

The Management of the Group monitors the adequacy of capital and application of regulatory capital in a real-time manner based on relevant guideline of the Basel Committee and regulatory requirements of the CBRC.

To ensure the capital adequacy ratio meeting the regulatory requirement and support balanced and sound development of various businesses on this basis, the Group proactively expanded the capital supplementary channel to promote the capital strength, reasonably controlled the growth rate of risk assets, vigorously optimized the structure of risk assets and strived to enhance the utilization efficiency of risk assets.

The Group calculated the net capital at all levels and the capital adequacy ratio in accordance with the *Regulation Governing Capital of Commercial Banks (Provisional)* issued by the CBRC. Particulars are as follows:

	31 December 2017	**31 December 2016**
Net core tier-1 core capital	148,848	132,856
Net tier-1 core capital	168,929	152,900
Net capital	223,035	178,991
Core tier-1 capital adequacy ratio	8.26%	8.43%
Tier-1 capital adequacy ratio	9.37%	9.70%
Capital adequacy ratio	12.37%	11.36%

7. Fair value of financial assets and financial liabilities

Fair value refers to the amount received from selling an asset or the amount to be paid for transferring a liability by market players in orderly transactions on the measurement date. Whether the fair value is observed or estimated with valuation techniques, it is the basis of the fair value measured and disclosed in these financial statements. The Group measures and discloses the fair value of financial instruments on the following levels:

Level 1: Fair value measurement refers to the unadjusted quotation of the same assets or liabilities obtainable in the active market on the measurement date;

Level 2: Fair value measurement refers to the directly or indirectly observable input value of related assets or liabilities other than the input value in Level 1. Most bond investments classified on Level 2 are RMB bonds. The fair value of these bonds is determined on the valuation results provided by China Central Depository Trust & Clearing Co., Ltd. Also on the level are most OTC derivatives. Valuation techniques include forward pricing, swap modeling and option pricing & modeling. The entered parameters come from the observable open markets such as Bloomberg, Wind and Reuters trading systems.

Level 3: Fair value measurement refers to the unobservable input value of related assets or liabilities.

7.1 Fair value of financial assets and financial liabilities continuously measured at fair value

The following table shows the financial instruments measured at fair value evaluated at three levels:

	The Group and the Bank 31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Financial assets measured at fair value through profit or loss	540	2,666	–	3,206
Derivative financial assets	–	3,256	–	3,256
Available-for-sale financial assets	13,018	97,212	–	110,230
Financial liabilities				
Derivative financial assets	–	1,696	–	1,696

	The Group and the Bank			
	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss	–	4,939	–	4,939
Derivative financial assets	–	803	–	803
Available-for-sale financial assets	–	92,170	–	92,170
Financial liabilities				
Derivative financial assets	–	1,093	–	1,093

Fair value measurement of financial assets and financial liabilities of the Group neither shifted between Level 1 and Level 2 nor between Level 2 and Level 3 in the year and the previous year.

For financial assets and liabilities stipulated by standard articles and traded on the active market, their fair value shall be determined separately with reference to the buy-in and sell-out prices available on the market.

When the quotation is not available in the active market, the Group determines the fair value of financial assets and financial liabilities continuously measured at fair value by valuation techniques.

Valuation techniques used by the Group include cash flow discounting model for some derivative financial instruments whose quotation is not available in the active market (including FX forward, FX swap, interest rate swap, etc.) and the Black-Scholes option pricing model for valuation of option derivative instruments. Parameters used by the cash flow discounting model mainly include recent transaction prices, related yield curve, exchange rate, prepayment rate and credit spread of counterparties while those used by the Black-Scholes option pricing model are related yield curve, exchange rate and fluctuation level, etc.

The fair value of other financial instruments (including interbank market securities) is determined according to the general pricing model which is based on the future cash flow discounting method.

Except the financial assets and financial liabilities continuously measured at fair value, the Group held no financial instruments not continuously measured at fair value.

7.2 Financial assets and financial liabilities not measured at fair value

The table below shows the book value and fair value of financial assets and financial liabilities that are not presented by fair value. Financial assets and financial liabilities with similar book value and fair value are not included in the table below, including balances with central banks, due from and placements with banks and other financial institutions, financial assets under reverse repurchase agreements, borrowings from the central bank, due to banks and other financial institutions, placements from banks and other financial institutions, and financial assets under repurchase agreements, etc.

	The Group			
	31 December 2017		31 December 2016	
Financial assets	Book value	Fair value	Book value	Fair value
Loans and advances	1,355,585	1,356,398	1,184,355	1,186,200
Held-to-maturity investments	401,493	392,575	345,593	349,399
Account receivable held for investment	250,315	250,432	197,378	197,830
	2,007,393	**1,999,405**	**1,727,326**	**1,733,429**

	The Group			
	31 December 2017		31 December 2016	
Financial liabilities	**Book value**	**Fair value**	**Book value**	**Fair value**
Deposits taken	1,433,907	1,447,344	1,368,300	1,368,914
Debt obligations payable	369,689	366,147	268,184	265,029
	1,803,596	**1,813,491**	**1,636,484**	**1,633,943**

	The Bank			
	31 December 2017		31 December 2016	
Financial assets	**Book value**	**Fair value**	**Book value**	**Fair value**
Loans and advances	1,300,368	1,301,181	1,139,301	1,141,146
Held-to-maturity investments	402,093	393,174	345,593	349,399
Account receivable held for investment	249,428	249,545	196,478	196,930
	1,951,889	**1,943,900**	**1,681,372**	**1,687,475**

	The Bank			
	31 December 2017		31 December 2016	
Financial liabilities	**Book value**	**Fair value**	**Book value**	**Fair value**
Deposits taken	1,434,683	1,445,106	1,366,008	1,366,601
Debt obligations payable	369,689	366,147	268,184	265,029
	1,804,372	**1,811,253**	**1,634,192**	**1,631,630**

The table below lists the levels of fair value of financial assets and financial liabilities that are not presented at fair value on the balance sheet date:

	The Group			
	31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Loans and advances	–	–	1,356,398	1,356,398
Held-to-maturity investments	–	392,575	–	392,575
Account receivable held for investment	–	312	250,120	250,432
Financial liabilities				
Deposits taken	–	1,447,344	–	1,447,344
Debt obligations payable	–	366,147	–	366,147

	The Group			
	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances	–	–	1,186,200	1,186,200
Held-to-maturity investments	–	349,399	–	349,399
Account receivable held for investment	–	1,665	196,165	197,830
Financial liabilities				
Deposits taken	–	1,368,914	–	1,368,914
Debt obligations payable	–	265,029	–	265,029

	The Bank			
	31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances	–	–	1,301,181	1,301,181
Held-to-maturity investments	–	393,174	–	393,174
Account receivable held for investment	–	312	249,233	249,545
Financial liabilities				
Deposits taken	–	1,445,106	–	1,445,106
Debt obligations payable	–	366,147	–	366,147

	The Bank			
	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Loans and advances	–	–	1,141,146	1,141,146
Held-to-maturity investments	–	349,399	–	349,399
Account receivable held for investment	–	1,665	195,265	196,930
Financial liabilities				
Deposits taken	–	1,366,601	–	1,366,601
Debt obligations payable	–	265,029	–	265,029

As for the beneficiary right of loans and advances to customers and investments classified as receivables, its fair value will be determined based on the cash flow discounting model and the unobservable discounting rate which reflects credit risk of counterparties and is adjusted based on the liquidity profile. These financial instruments are classified into Level 3.

The fair value of other financial instruments is determined according to the general pricing model which is based on the future cash flow discounting method. These financial instruments are classified into Level 2.

XVI. OTHER SIGNIFICANT MATTERS

1. Assets and liabilities measured at fair value

	The Group and the Bank				
	2017				
	Amount at year beginning	Gains and losses from changes in fair value in the year	Accumulated changes in fair value through equity	Impairment losses in the year	Amount at year end
Financial assets measured at fair value through profit or loss	4,939	(14)	–	–	3,206
Derivative financial assets	803	2,453	–	–	3,256
Available-for-sale financial assets	92,170	–	(1,152)	5	110,230
Total financial assets	**97,912**	**2,439**	**(1,152)**	**5**	**116,692**
Derivative financial assets	**1,093**	**(603)**	**–**	**–**	**1,696**

	The Group and the Bank				
	2016				
	Amount at year beginning	Gains and losses from changes in fair value in the year	Accumulated changes in fair value through equity	Impairment losses in the year	Amount at year end
Financial assets measured at fair value through profit or loss	11,872	(182)	–	–	4,939
Derivative financial assets	191	612	–	–	803
Available-for-sale financial assets	73,118	–	22	2	92,170
Total financial assets	**85,181**	**430**	**22**	**2**	**97,912**
Derivative financial assets	**169**	**(924)**	**–**	**–**	**1,093**

Notes: There is not necessarily articulation in the changes in the asset and liability items listed in the table above.

2. Foreign-currency financial assets and financial liabilities

	The Group and the Bank				
	2017				
	Amount at year beginning	Gains and losses from changes in fair value in the year	Accumulated changes in fair value through equity	Impairment losses in the year	Amount at year end
Cash on hand and balances with central banks	21,837	–	–	–	20,605
Due from banks	11,435	–	–	(10)	13,489
Placements with banks and other financial institutions	148	–	–	–	59
Financial assets measured at fair value through profit or loss	1	1	–	–	1
Derivative financial assets	788	2,458	–	1	3,247
Loans and advances	17,782	–	–	378	22,722
Available-for-sale financial assets	352	–	(1)	5	1,658
Held-to- maturity investments	14	–	–	15	2,356
Account receivable held for investment	–	–	–	–	85
Other financial assets	420	–	–	(4)	333
Total financial assets	**52,777**	**2,459**	**(1)**	**385**	**64,555**
Financial liabilities	**33,352**	**(608)**	**–**	**–**	**50,788**

	The Group and the Bank				
	2016				
	Amount at year beginning	Gains and losses from changes in fair value in the year	Accumulated changes in fair value through equity	Impairment losses in the year	Amount at year end
Cash on hand and balances with central banks	18,822	–	–	–	21,837
Due from banks	12,799	–	–	–	11,435
Placements with banks and other financial institutions	–	–	–	–	148
Financial assets measured at fair value through profit or loss	1	–	–	–	1
Derivative financial assets	184	604	–	–	788
Loans and advances	25,568	–	–	465	17,782
Available-for-sale financial assets	–	–	–	–	352
Held-to- maturity investments	–	–	–	–	14
Other financial assets	402	–	–	–	420
Total financial assets	**57,776**	**604**	**–**	**465**	**52,777**
Financial liabilities	**39,721**	**(916)**	**–**	**–**	**33,352**

Notes: There is not necessarily articulation in the changes in the asset and liability items listed in the table above.

XVII. POST BALANCE SHEET DATE EVENTS

Profit Distribution Plan

The Bank held a meeting of the Board of Directors on 16 March 2018, approving to distribute cash dividend of RMB4.2 (pre-tax) per share to preference shareholders. The dividends above totaled RMB840 million, and were distributed on 28 March 2018.

The Bank held a meeting of the Board of Directors on 18 April 2018, approving to distribute dividend of RMB1.51 (pre-tax) per 10 shares after setting aside statutory surplus reserve and general risk reserve. Calculated based on the shares issued by the Bank as at 31 December 2017, the total dividends distributed totaled about RMB1,936,225,685. The above profit distribution plan is subject to approval by the Shareholders' General Meeting. Before that, accounting treatment is not made to the proposed surplus reserve, general reserve and dividend distribution.

XVIII.COMPARATIVE DATA

Certain comparative data have been reclassified to be consistent with this year's presentation of financial statements.

XIX. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors of the Bank on 18 April 2018.

UNAUDITED SUPPLEMENTARY MATERIALS

For the year ended 31 December 2017 (In RMB millions, unless otherwise stated)

1. Detail list of extraordinary profit or loss

The table below is prepared in accordance with the *SIC No.1 on Information Disclosure of the Companies with Public Offering – Extraordinary Profit or Loss (2008)* issued by CSRC.

	2017	2016
(Profit)/loss from the disposal of fixed assets	(9)	(10)
Other net operating income and expenses	136	134
Income tax influence of extraordinary profit or loss	(44)	(35)
Less: Extraordinary profit or loss attributable to minority shareholders	(1)	(5)
Total extraordinary profit or loss attributable to ordinary shareholders of the parent company	82	84

Extraordinary profit or loss refers to the profit or loss resulting from transactions and events that have no direct relation with normal operation of the Group or that although have direct relation with normal operation of the Group, they may affect the financial statements users' normal judgment on the Group's operating results and profitability due to their special and accidental nature.

2. Return on equity and earnings per share

The table below is prepared in accordance with the *Rules for the Compilation and Submission of Information Disclosure by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Equity and Earnings Per Share (Revision 2010)* issued by CSRC. During relevant periods, basic earnings per share will be calculated by dividing the current net profit with the weighted average ordinary shares issued.

	2017	2016
Net profit attributable to ordinary shareholders of the parent company	18,979	19,677
Weighted average return on equity (%)	13.54	15.75
Basic earnings per share (RMB yuan/share)	1.48	1.53
Net profit attributable to ordinary shareholders of the parent company after deduction of extraordinary profit or loss	18,897	19,593
Weighted average return on equity (%)	13.48	15.68
Basic earnings per share (RMB yuan/share)	1.47	1.53

The Group has no potential diluted ordinary share.

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