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BANK OF TIANJIN CO., LTD.*

天津銀行股份有限公司*

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1578)

2017 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the “**Board**”) of Bank of Tianjin Co., Ltd. (the “**Bank**”) hereby announces the audited consolidated annual results of the Bank for the year ended December 31, 2017 (the “**Reporting Period**”). The content of this results announcement has been prepared in accordance with applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”) in relation to preliminary announcements of annual results and the International Financial Reporting Standards (the “**IFRSs**”) promulgated by the International Accounting Standards Board. Such annual results have also been reviewed and confirmed by the Board and the audit committee of the Board. Unless otherwise stated, financial data of the Bank and its subsidiaries are presented in Renminbi.

1. CORPORATE INFORMATION

1.1 Basic Information

Legal Chinese Name	天津銀行股份有限公司
Abbreviation in Chinese	天津銀行
Legal English Name	Bank of Tianjin Co., Ltd.
Abbreviation in English	Bank of Tianjin
Legal Representative	LI Zongtang
Authorized Representatives	ZHANG Furong, NGAI Wai Fung
Listing Place of H shares	The Stock Exchange of Hong Kong Limited
Stock Name	Bank of Tianjin
Stock Code	1578

1.2 Contact Persons and Contact Details

Board Secretary	ZHANG Furong
Joint Company Secretaries	ZHANG Furong, NGAI Wai Fung
Registered Address and Headquarters Address	No. 15 Youyi Road, Hexi District, Tianjin, China
Principal Place of Business in Hong Kong	18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
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2. SUMMARY OF ACCOUNTING DATA AND FINANCIAL INDICATORS

	For the year ended December 31,		
	2017	2016	Rate of change (%)
	<i>(Amounts in thousands of RMB unless otherwise stated)</i>		
OPERATING RESULTS			
Interest income	27,894,735	25,202,576	10.7
Interest expense	(19,493,523)	(14,843,351)	31.3
NET INTEREST INCOME	8,401,212	10,359,225	(18.9)
Fee and commission income	2,112,839	1,442,473	46.5
Fee and commission expense	(79,374)	(40,421)	96.4
NET FEE AND COMMISSION INCOME	2,033,465	1,402,052	45.0
Net trading losses	(172,619)	(120,090)	43.7
Net gains arising from investment securities	15,601	63,342	(75.4)
Other income, gains or losses	(134,343)	110,207	(221.9)
OPERATING INCOME	10,143,316	11,814,736	(14.1)
Operating expenses	(3,102,593)	(3,767,642)	(17.7)
Impairment losses	(2,131,853)	(2,352,964)	(9.4)
Share of results of associates	(25,932)	16,244	(259.6)
PROFIT BEFORE TAX	4,882,938	5,710,374	(14.5)
Income tax expense	(939,874)	(1,192,470)	(21.2)
PROFIT FOR THE YEAR	3,943,064	4,517,904	(12.7)
Attributable to:			
Equity holders of the Bank	3,916,386	4,522,053	(13.4)
Non-controlling interests	26,678	(4,149)	(743.0)
Earnings per share (Expressed in RMB Yuan per share)			
– Basic	0.65	0.77	(15.6)
– Diluted	0.65	0.77	(15.6)

	For the year ended December 31,		
	2017	2016	Rate of change (%)
	(Amounts in thousands of RMB unless otherwise stated)		
MAJOR INDICATORS OF ASSETS/LIABILITIES			
Total assets	701,913,589	657,310,107	6.8
Of which: loans and advances to customers	241,637,249	207,854,530	16.3
Total liabilities	657,157,727	615,555,327	6.8
Of which: due to customers	357,857,635	365,470,957	(2.1)
Share capital	6,070,552	6,070,552	—
Equity attributable to equity holders of the Bank	44,083,453	41,709,929	5.7
Total equity	44,755,862	41,754,780	7.2
For the year ended December 31,			
	2017	2016	Rate of Change (%)
PROFITABILITY INDICATORS (%)			
Return on average total assets ⁽¹⁾	0.58	0.74	(0.16)
Return on average equity ⁽²⁾	9.12	12.05	(2.93)
Net interest spread ⁽³⁾	0.81	1.43	(0.62)
Net interest margin ⁽⁴⁾	1.25	1.76	(0.51)
Net fee and commission income to operating income	20.05	11.87	8.18
Cost-to-income ratio ⁽⁵⁾	29.42	27.52	1.90
As of			
	December 31, 2017	As of December 31, 2016	Rate of Change (%)
ASSET QUALITY INDICATORS (%)			
Non-performing loan ratio ⁽⁶⁾	1.50	1.48	0.02
Allowance coverage ratio ⁽⁷⁾	193.81	193.56	0.25
Allowance to gross loan ratio ⁽⁸⁾	2.91	2.87	0.04

	As of December 31, 2017	As of December 31, 2016	Rate of Change (%)
CAPITAL ADEQUACY RATIO			
INDICATORS (%)			
<i>Calculated based on Capital Adequacy Measures</i>			
Core capital adequacy ratio ⁽⁹⁾	N/A	N/A	N/A
Capital adequacy ratio ⁽¹⁰⁾	N/A	N/A	N/A
<i>Calculated based on Capital Administrative Measures</i>			
Core tier-one capital adequacy Ratio ⁽¹¹⁾	8.64	9.48	(0.84)
Tier-one capital adequacy ratio ⁽¹²⁾	8.65	9.48	(0.83)
Capital adequacy ratio ⁽¹³⁾	10.74	11.88	(1.14)
Total equity to total assets	6.38	6.35	0.03
OTHER INDICATORS (%)			
Loan-to-deposit ratio ⁽¹⁴⁾	69.56	58.57	10.99
Liquidity ratio ⁽¹⁵⁾	35.41	34.39	1.02
Percentage of loans to the single largest customer ⁽¹⁶⁾	6.36	7.83	(1.47)
Percentage of loans to the top ten customers ⁽¹⁷⁾	41.55	35.76	5.79

Notes:

- (1) Calculated by dividing net profit for the year by average balance of total assets at the beginning and the end of the year.
- (2) Calculated by dividing net profit for the year by average balance of total equity at the beginning and the end of the year.
- (3) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.
- (4) Calculated by dividing net interest income by the daily average balance of total interest-earning assets.
- (5) Calculated by dividing total operating expenses (excluding tax and surcharges) by total operating income.
- (6) Calculated by dividing total non-performing loans by gross loans.
- (7) Calculated by dividing total allowance for impairment losses on loans to customers by total non-performing loans.
- (8) Calculated by dividing total allowance for impairment losses on loans to customers by gross loans to customers.
- (9) Calculated by dividing (i) core capital, net of core capital deductions, by (ii) sum of risk-weighted assets and 12.5 times capital charge for market risk.

- (10) Calculated by dividing (i) total capital, net of capital deductions, by (ii) sum of risk-weighted assets and 12.5 times capital charge for market risk.
- (11) Calculated by dividing core tier-one capital, net of core tier-one capital deductions, by risk-weighted assets.
- (12) Calculated by dividing tier-one capital, net of tier-one capital deductions, by risk-weighted assets.
- (13) Calculated by dividing total capital, net of capital deductions, by risk-weighted assets.
- (14) Loan-deposit ratios of as of December 31, 2016 and December 31, 2017 were calculated according to the Notice on Adjusting the Calculation of Loan-to-Deposit Ratio for Commercial Banks (《中國銀監會關於調整商業銀行存貸比計算口徑的通知》) issued by CBRC.
- (15) Liquidity ratio is calculated in accordance with the formula promulgated by the China Banking Regulatory Commission.
- (16) Calculated by dividing total loans to the single largest customer by net capital.
- (17) Calculated by dividing total loans to the top ten customers by net capital.

3. MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Environment and Prospects

In 2017, domestic economy showcased a benign synergy between growth, quality, structure, and efficiency, while moving forward within a reasonable range with an increasingly obvious upward trend of stable performance, presenting a landscape of stable growth, rising employment, stable price, increasing income, upgraded supply-side structure, and new momentum growth driven by innovation. The stability, coordination and sustainability of economic growth have been somewhat enhanced.

Looking to 2018, the overall economic climate will rise amid the improving employment market and economic demand across the globe. The PRC economy may follow the general tone of advancing at a modest pace amid stability. In China, monetary policies will remain prudent, neutral and moderate; financial policies will keep positive with increasing emphasis on adjustment and optimization of financial expenditure structure and enhancement of debt management. The reform in financial system will get intensified and domestic macro-prudential management framework will be improved, forming a “control framework underpinned by sound monetary policy and macro-prudential policy”. In this context, the coordination and cooperation between monetary policy and macro-prudential policy will be strengthened on a sustained basis. Commercial banks will be faced with grim regulatory environment where social financing structure will undergo changes, and actual bank leverage ratio will be restricted significantly; meanwhile, banks will be more advantageous in pricing as the liquidity tightens on the whole and interest rate in the financial market is transmitted to the credit market, which will contribute to an increase in the loan interest rate. Banks’ profits will be improved slowly under optimizing credit structure and asset quality. High quality development has become an inevitable trend in Beijing-Tianjin-Hebei region where the Bank is headquartered, with a focus on supporting real economy. With the advancement of synergetic development strategy of the Beijing-Tianjin-Hebei region and approximately mature planning framework for Xiongan New Area in Hebei, Tianjin’s economic development will enter a new normal faced with major opportunities and severe challenges arising from the transition from speed and scale-based development to quality and efficiency-oriented development. By closely following central policies, focusing on “serving real economy, preventing and controlling financial risks, deepening financial reform” and capitalizing on excellent opportunities arising from the synergistic development of the Beijing-Tianjin-Hebei region and Xiongan New Area in Hebei, we will adhere to the “dual track” strategy of reform and renovation, create our competitiveness and enhance our profitability.

3.2 Corporate Strategies

Our strategic vision targets to position the Bank in six dimensions: (i) to be a mainstream bank in Beijing-Tianjin-Hebei region. Aiming at the Beijing-Tianjin-Hebei region and supporting the development of the real economy, we are to make important contributions to the development of Beijing-Tianjin-Hebei region; (ii) to be a dual-track bank. Promoting traditional business transformation centered on customers and creating a comprehensive digital layout shepherded by technology and data, we are to become a dual-track bank for transformation and innovation; (iii) to be a value-driven bank. Transforming from the “pursuit of quantity” to the “pursuit of quality”, we are dedicated to efficiency and quality to bring values for the shareholders; (iv) to be a bank proud of compliance and integrity, we are to perfectly comply with all regulatory requirements and serve the society with integrity; (v) to be a bank offering superior experience. Promoting digital transformation of end-to-end customer journeys, we are to become a digital bank with first-class customer experience; (vi) to be a bank that cares for employees. Treasuring talents, strengthening employees’ sense of belonging, and providing employees with the best development opportunities, we are committed to devoting more attention to employees.

The Bank plans to achieve its strategic vision and goals through the dual-track strategy of “transformation + innovation”. The first is transformation. Promoting traditional business transformation inside out based on customers. Mainly including: 1) the corporate and institutional business transformation. Focusing on the high-quality corporate customers in eight key industries, creating distinctive online transaction banking, we will provide integrated financial services for enterprises; and 2) developing ultra-conventional retail services. Focusing on six strategic customer bases, we will vigorously develop wealth management, mobile payment and high-yield asset businesses, build digitalized and lightweight retail banking; and 3) switching financial market operations back to their original functions. Under strict supervision standards, exploration of inter-bank customers, development of agent business, provision of diversified products, we will build a customer-oriented and collaborative one-stop financial services bank. The second is innovation, guided by technology and data, fully implementing digital layout. Mainly including: 1) innovation of mechanism and system. Internally, we will implement matrix management, build a strong head office, clarify corporate and private business in branches, and pilot agile organization; externally, we will create innovative garages, incubators, finance technology funds, and explore quasi partner mechanisms; 2) E-Tianjin Bank. Focusing on long-tailed and high-and-middle income customers, we will build platforms, lead flow rate, operate flow rate, mainly promoting consumer credit and smart investment and consulting to achieve the reconstruction of Tianjin bank; 3) customer experience and digital process transformation. Focusing on core customer journeys, we will apply big data to transform end-to-end digital processes. At the same time, we will build an ecosphere alliance, develop financial technology, and achieve customer journey extension and customer experience enhancement.

At the same time, the Bank plans to upgrade the “Ten Major Projects (Version 1.0)” upon its successful completion to “Ten Major Projects (Version 2.0)”. Based on “Three Major Managements”, “Three Major Constructions”, and “Four Major Drivers and Safeguard”, we will further build a “strong head office.”

“Three Major Managements” include: 1) comprehensive risk management. From the aspects of policies, organizations, processes, and systems, we will comprehensively enhance the level of risk management; 2) pricing management. We will establish scientific Funds Transfer Pricing (FTP), as well as refined and differentiated external pricing capabilities; 3) resource allocation management. We will establish strategically oriented resource allocation to support the development of key regions, key customers, and key products.

“Three Major Constructions” include: 1) talent team construction. We will formulate a differential management mechanism of “selection, utilization, education, retaining, and remuneration” for core talents to lead a transformation of talent management; 2) brand and culture construction. We will establish a brand system and a core culture that match the Bank’s strategic objectives; 3) basic construction. We will upgrade the data disaster recovery center, promote the building of the headquarters building, accelerate the renovation of outlets, and improve the basic system.

“Four Major Drivers and Safeguard” include: 1) party leadership. We will enhance party leadership and enforce party discipline rules; 2) performance appraisal. We will exert the role of “strategic baton” to ensure the implementation of the strategy in the entire bank; 3) IT leadership. We will coordinate the whole bank, promote the introduction and implementation of industrial systems; continue to upgrade and build big data applications and dual-speed IT; 4) we will split “bad banks” and establish dedicated teams for full-time posts, and centralize disposition of non-performing assets to realize separation of “good banks from bad banks”.

3.3 Analysis of the Income Statement

	For the year ended December 31,		
	2017	2016	Rate of change (%)
	<i>(Amounts in thousands of RMB, unless otherwise stated)</i>		
Interest income	27,894,735	25,202,576	10.7
Interest expense	(19,493,523)	(14,843,351)	31.3
NET INTEREST INCOME	8,401,212	10,359,225	(18.9)
Fee and commission income	2,112,839	1,442,473	46.5
Fee and commission expense	(79,374)	(40,421)	96.4
NET FEE AND COMMISSION INCOME	2,033,465	1,402,052	45.0
Net trading losses	(172,619)	(120,090)	43.7
Net gains arising from investment securities	15,601	63,342	(75.4)
Other income, gains or losses	(134,343)	110,207	(221.9)
OPERATING INCOME	10,143,316	11,814,736	(14.1)
Operating expenses	(3,102,593)	(3,767,642)	(17.7)
Impairment losses	(2,131,853)	(2,352,964)	(9.4)
Share of results of associates	(25,932)	16,244	(259.6)
PROFIT BEFORE TAX	4,882,938	5,710,374	(14.5)
Income tax expense	(939,874)	(1,192,470)	(21.2)
PROFIT FOR THE YEAR	3,943,064	4,517,904	(12.7)

For the year ended December 31, 2017, the Bank's profit before tax decreased by 14.5% to RMB4,882.9 million from RMB5,710.4 million for the year ended December 31, 2016 and the profit for the same year decreased by 12.7% to RMB3,943.1 million from RMB4,517.9 million for the year ended December 31, 2016.

3.3.1 Net Interest Income, Net Interest Spread and Net Interest Margin

For the year ended December 31, 2017, the Bank's net interest income decreased by 18.9% to RMB8,401.2 million from RMB10,359.2 million for the year ended December 31, 2016. Our net interest spread decreased from 1.43% for the year ended December 31, 2016 to 0.81% for the year ended December 31, 2017, primarily due to the fact that our average yield on interest-earning assets decreased by 14 basis points, while the average cost of interest-bearing liabilities increased by 48 basis points. Our net interest margin decreased from 1.76% for the year ended December 31, 2016 to 1.25% for the year ended December 31, 2017, because our net interest income decreased by 18.9% for the year ended December 31, 2017, while our average balance of our interest-earning assets increased by 14.3% for the year ended December 31, 2017.

The following tables set forth, for the year ended December 31, 2016 and 2017, the average balance of our interest-earning assets and interest-bearing liabilities, interest income and expense from these assets and liabilities, and the average yield of these interest-earning assets and the average cost of these interest-bearing liabilities.

	For the year ended December 31,					
	2017			2016		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
<i>(Amounts in millions of RMB, except percentages)</i>						
Interest-earning Assets						
Loans and advances to customers	225,435.5	10,880.7	4.83	199,576.5	10,015.1	5.02
Investment securities and other financial assets, including	345,259.5	14,468.4	4.19	262,941.4	12,174.2	4.63
– Trust beneficiary rights, wealth management products and asset management plans	210,599.7	10,452.0	4.96	163,354.8	9,254.1	5.67
– Debt securities investment	134,659.8	4,016.4	2.98	99,586.6	2,920.1	2.93
Amounts due from banks and other financial institutions ⁽¹⁾	32,097.0	1,157.4	3.61	48,880.4	1,520.8	3.11
Deposits with banks and other financial institutions	14,226.4	556.0	3.91	21,904.7	658.7	3.01
Balances with central bank	54,807.1	832.2	1.52	54,703.3	833.8	1.52
Total interest-earning assets	671,825.5	27,894.7	4.15	588,006.3	25,202.6	4.29
Allowance for impairment losses	(8,169.0)			(6,851.7)		
Non-interest earning assets ⁽²⁾	11,218.0			9,891.4		
Total assets	674,874.5	27,894.7	4.13	591,046.0	25,202.6	4.26

	For the year ended December 31,					
	2017			2016		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
<i>(Amounts in millions of RMB, except percentages)</i>						
Interest-bearing Liabilities						
Due to customers	328,994.4	8,744.8	2.66	340,782.2	9,117.3	2.68
Deposits from banks and other financial institutions	94,529.6	4,240.4	4.49	117,889.8	3,860.6	3.27
Amounts due to banks and other financial institutions ⁽³⁾	71,650.1	2,505.1	3.50	29,608.1	685.0	2.31
Debt securities issued	86,519.1	3,922.7	4.53	30,950.6	1,180.4	3.81
Borrowings from central bank	2,515.8	80.5	3.20	4.4	0.1	2.27
Total interest-bearing liabilities	584,209.0	19,493.5	3.34	519,235.1	14,843.4	2.86
Non-interest-bearing liabilities ⁽⁴⁾	45,631.3			33,171.7		
Total liabilities	629,840.3	19,493.5	3.09	552,406.8	14,843.4	2.69
Net interest income		8,401.2			10,359.2	
Net interest spread⁽⁵⁾			0.81			1.43
Net interest margin⁽⁶⁾			1.25			1.76

Notes:

- (1) Consists of financial assets held under resale agreements and placements with banks and other financial institutions.
- (2) Consists of cash, interest receivable, fixed assets, intangible assets, other receivables, repossessed assets and deferred income tax assets.
- (3) Consists of financial assets sold under repurchase agreements and placements from banks and other financial institutions.
- (4) Consists of interest payable, taxes payable, other payables, accrued liabilities, accrued staff salaries and dividends payable.
- (5) Calculated as the difference between the average yield on total interest-earning assets and the average cost of total interest-bearing liabilities.
- (6) Calculated by dividing net interest income by the daily average balance of total interest-earning assets.

3.3.2 Interest Income

For the year ended December 31, 2017, our interest income increased by 10.7% to RMB27,894.7 million from RMB25,202.6 million for the year ended December 31, 2016, which was primarily attributable to an increase of 14.3% in the average balance of interest-earning assets from RMB588,006.3 million for the year ended December 31, 2016 to RMB671,825.5 million for the year ended December 31, 2017, partially offset by a decrease of the average yield of our interest-earning assets from 4.29% for the year ended December 31, 2016 to 4.15% for the year ended December 31, 2017.

Interest income from loans and advances to customers

For the year ended December 31, 2017, interest income from loans and advances to customers increased by 8.6% from RMB10,015.1 million for the year ended December 31, 2016 to RMB10,880.7 million for the year ended December 31, 2017, primarily due to the average balance of loans and advances to customers increased by 13.0% from RMB199,576.5 million for the year ended December 31, 2016 to RMB225,435.5 million for the year ended December 31, 2017, partially offset by a decrease of the average yield of our loans and advances to customers from 5.02% for the year ended December 31, 2016 to 4.83% for the year ended December 31, 2017, the increase in average balance of loans and advances to customers primarily reflected our continued efforts to increase our extending of loans to support the development of real economies; the decrease of the average yield of our loans and advances to customers was primarily due to the expansion of the tax reform of transitioning from business tax to value-added tax in China into financial industry since May 1, 2016 and the fierce competition in the banking industry in China.

Interest income from trust beneficiary rights, wealth management products and asset management plans

For the year ended December 31, 2017, interest income from trust beneficiary rights, wealth management products and asset management plans increased by 12.9% from RMB9,254.1 million for the year ended December 31, 2016 to RMB10,452.0 million for the year ended December 31, 2017, primarily as a result of a 28.9% increase in average balance of trust beneficiary rights, wealth management products and asset management plans from RMB163,354.8 million for the year ended December 31, 2016 to RMB210,599.7 million for the year ended December 31, 2017, primarily due to our increased investment in trust beneficiary rights, wealth management products and asset management plans to generate relatively higher returns as compared with other interest-earning assets. The average yield of our trust beneficiary rights, wealth management products and asset management plans decreased from 5.67% for the year ended December 31, 2016 to 4.96% for the year ended December 31, 2017. The decrease in average yield of our trust beneficiary rights, wealth management products and asset management plans was mainly due to the slight decrease of our yield resulted from the Bank's decision to optimize the investment business structure, preference to the investment businesses with lower risks.

Interest income from debt securities investment

Interest income from debt securities investment increased by 37.5% from RMB2,920.1 million for the year ended December 31, 2016 to RMB4,016.4 million for the year ended December 31, 2017, primarily due to a 35.2% increase in the average balance of our debt securities investment from RMB99,586.6 million for the year ended December 31, 2016 to RMB134,659.8 million for the year ended December 31, 2017, and the average yield of our debt securities investment increased from 2.93% for the year ended December 31, 2016 to 2.98% for the year ended December 31, 2017. The increase in the average balance of our debt securities investment was primarily due to an increase in our holding of debt securities to generate higher returns.

Interest income from amounts due from banks and other financial institutions

Interest income from amounts due from banks and other financial institutions decreased by 23.9% from RMB1,520.8 million for the year ended December 31, 2016 to RMB1,157.4 million for the year ended December 31, 2017, primarily due to a 34.3% decrease in the average balance of our amounts due from banks and other financial institutions from RMB48,880.4 million for the year ended December 31, 2016 to RMB32,097.0 million for the year ended December 31, 2017, partially offset by an increase in the average yield of our amounts due from banks and other financial institutions from 3.11% for the year ended December 31, 2016 to 3.61% for the year ended December 31, 2017. The decrease in the average balance of our amounts due from banks and other financial institutions was primarily due to our bills held under resale agreements and certain of our other financial assets held under resale agreements came to maturity. The increase in the average yield of our amounts due from banks and other financial institutions was due to the increase in the market rate.

Interest income from deposits with banks and other financial institutions

Interest income from deposits with banks and other financial institutions decreased by 15.6% from RMB658.7 million for the year ended December 31, 2016 to RMB556.0 million for the year ended December 31, 2017, primarily due to a 35.1% decrease in the average balance of deposits with banks and other financial institutions from RMB21,904.7 million for the year ended December 31, 2016 to RMB14,226.4 million for the year ended December 31, 2017, partially offset by an increase in the average yield of our deposits with banks and other financial institutions from 3.01% for the year ended December 31, 2016 to 3.91% for the year ended December 31, 2017. The decrease in the average balance of our deposits with banks and other financial institutions was our adjustment of overall assets portfolio to allocate our fund resources to the higher-yielding assets while meeting our liquidity needs. The increase of average yield of our deposits with banks and other financial institutions was mainly due to the increase in the market rate.

Interest income from balances with central bank

Interest income from balances with central bank decreased by 0.2% from RMB833.8 million for the year ended December 31, 2016 to RMB832.2 million for the year ended December 31, 2017.

3.3.3 Interest Expense

Our interest expense increased by 31.3% from RMB14,843.4 million for the year ended December 31, 2016 to RMB19,493.5 million for the year ended December 31, 2017, primarily due to an increase of 12.5% in the average balance of the interest-bearing liabilities from RMB519,235.1 million for the year ended December 31, 2016 to RMB584,209.0 million for the year ended December 31, 2017 and an increase in the average cost of our interest-bearing liabilities from 2.86% for the year ended December 31, 2016 to 3.34% for the year ended December 31, 2017. The increase in the average cost of our interest-bearing liabilities primarily reflected the increase in the market rate. The increase in the average balance of our interest-bearing liabilities was primarily due to an increase in the average balance of our debt securities issued.

Interest expense on amounts due to customers

Our interest expense on amounts due to customers decreased by 4.1% from RMB9,117.3 million for the year ended December 31, 2016 to RMB8,744.8 million for the year ended December 31, 2017, primarily due to a decrease of 3.5% in the average balance of total amounts due to customers from RMB340,782.2 million for the year ended December 31, 2016 to RMB328,994.4 million for the year ended December 31, 2017 and a decrease in the average cost of the amounts due to customers from 2.68% for the year ended December 31, 2016 to 2.66% for the year ended December 31, 2017. The decrease in the average balance of the amounts due to customers was primarily due to our optimization of deposit business structure. The decrease in the average cost of the amounts due to customers was primarily because we withdrew some of the deposits with higher cost.

Interest expense on deposits from banks and other financial institutions

Our interest expense on deposits from banks and other financial institutions increased by 9.8% from RMB3,860.6 million for the year ended December 31, 2016 to RMB4,240.4 million for the year ended December 31, 2017, primarily due to an increase in the average cost of the relevant liabilities from 3.27% for the year ended December 31, 2016 to 4.49% for the year ended December 31, 2017, partially offset by a decrease of 19.8% in the average balance of the underlying liabilities from RMB117,889.8 million for the year ended December 31, 2016 to RMB94,529.6 million for the year ended December 31, 2017. The increase in the average cost of our deposits from banks and other financial institutions primarily reflected the increase in the market rate. The decrease in the average balance of our deposits from banks and other financial institutions primarily reflected that the Bank can obtain funds in other ways in addition to deposits from banks and other financial institutions.

Interest expense on amounts due to banks and other financial institutions

Our interest expense on amounts due to banks and other financial institutions increased by 265.7% from RMB685.0 million for the year ended December 31, 2016 to RMB2,505.1 million for the year ended December 31, 2017, primarily due to a 142.0% increase of the average balance of our amounts due to banks and other financial institutions from RMB29,608.1 million for the year ended December 31, 2016 to RMB71,650.1 million for the year ended December 31, 2017 and an increase of the average cost of our amounts due to banks and other financial institutions from 2.31% for the year ended December 31, 2016 to 3.50% for the year ended December 31, 2017, and the increase in the average balance of our amounts due to banks and other financial institutions was primarily due to our decision to increase our inter-bank liabilities to meet our liquidity needs. The increase in the average cost of our amounts due to banks and other financial institutions was primarily due to the increase in the market rate.

Interest expense on debt securities issued

Our interest expense on debt securities issued increased by 232.3% from RMB1,180.4 million for the year ended December 31, 2016 to RMB3,922.7 million for the year ended December 31, 2017, primarily due to a 179.5% increase in the average balance of our debt securities issued from RMB30,950.6 million for the year ended December 31, 2016 to RMB86,519.1 million for the year ended December 31, 2017 and an increase in the average cost of our debt securities issued from 3.81% for the year ended December 31, 2016 to 4.53% for the year ended December 31, 2017. The increase in the average balance of our debt securities issued was primarily due to the increase in the interbank negotiable certificates. The increase in the average cost of our debt securities issued was primarily due to the increase in the market rate.

Interest expense on borrowings from central bank

Our interest expense on borrowings from central bank significantly increased from RMB0.1 million for the year ended December 31, 2016 to RMB80.5 million for the year ended December 31, 2017, primarily due to a significant increase of the average balance of borrowings from central bank from RMB4.4 million for the year ended December 31, 2016 to RMB2,515.8 million for the year ended December 31, 2017, accompanied by an increase in the average cost of our borrowings from central bank from 2.27% for the year ended December 31, 2016 to 3.20% for the year ended December 31, 2017. The increase in the average balance of borrowings from central bank was primarily due to we obtained qualification for medium-term lending facilities and increased the financing from the central bank. The increase in the average cost of our borrowings from central bank was primarily due to the increase of interest rate of open market operation by the central bank.

3.3.4 Non-interest Income

Net fee and commission income

The following table sets forth the principal components of our net fee and commission income for the year ended December 31, 2016 and 2017.

	For the year ended December 31,			Rate of
	2017	2016	Change in amount	change (%)
	<i>(Amounts in millions of RMB, except percentages)</i>			
Fee and commission income				
Wealth management service fees	1,229.2	860.9	368.3	42.8
Consultancy fees	259.0	25.8	233.2	903.9
Agency and fiduciary services fees	237.4	166.0	71.4	43.0
Acceptance and guarantee commitment fees	194.4	186.8	7.6	4.1
Settlement and clearing fees	157.4	168.1	(10.7)	(6.4)
Bank card fees	35.2	33.4	1.8	5.4
Others	0.2	1.5	(1.3)	(86.7)
Subtotal	2,112.8	1,442.5	670.3	46.5
Fee and commission expenses	(79.3)	(40.4)	38.9	96.3
Net fee and commission income	2,033.5	1,402.1	631.4	45.0

Our net fee and commission income increased by 45.0% from RMB1,402.1 million for the year ended December 31, 2016 to RMB2,033.5 million for the year ended December 31, 2017. The increase was primarily due to the increase in our wealth management service fees and others. For the year ended December 31, 2017, wealth management service fees amounted to RMB1,229.2 million, compared to RMB860.9 million for the year ended December 31, 2016.

Fee and Commission Expenses

Fee and commission expenses consist primarily of fees paid to third parties in connection with our fee- and commission-based services that can be directly allocated to the provision of such services. Our fee and commission expenses increased by 96.3% from RMB40.4 million for the year ended December 31, 2016 to RMB79.3 million for the year ended December 31, 2017.

Net trading losses

Net trading losses arise from buying and selling of, and changes in the fair value of financial assets held for trading. Our net trading losses amounted to RMB172.6 million for the year ended December 31, 2017, primarily due to the fluctuation of conditions of the bond market, while the Bank had a net trading losses of RMB120.1 million for the year ended December 31, 2016.

Net gains arising from investment securities

Net gains arising from investment securities represent net gains on disposal of available-for-sale financial assets. The Bank's net gains arising from investment securities decreased by 75.4% from RMB63.3 million for the year ended December 31, 2016 to RMB15.6 million for the year ended December 31, 2017, primarily due to the increase in yield as a result of the adjustment of bond market.

3.3.5 Operating Expenses

The following table sets forth, for the year ended December 31, 2016 and 2017, the principal components of our operating expenses.

	For the year ended December 31,			Rate of
	2017	2016	Change in amount	change (%)
	<i>(Amounts in millions of RMB, except percentages)</i>			
Operating expenses				
Staff costs	1,843.2	2,141.3	(298.1)	(13.9)
Other general and administrative expenses	353.9	343.3	10.6	3.1
Rental and property management expenses	339.9	314.3	25.6	8.1
Depreciation and amortization	224.5	199.7	24.8	12.4
Office expenses	222.4	252.2	(29.8)	(11.8)
Sundry taxes	118.7	516.8	(398.1)	(77.0)
Total operating expenses	3,102.6	3,767.6	(665.0)	(17.7)
Cost-to-income ratio⁽¹⁾	29.4%	27.5%	–	1.9

Notes:

- (1) Calculated by dividing total operating expenses, excluding tax and surcharges, by total operating income.

Our operating expenses decreased by 17.7% from RMB3,767.6 million for the year ended December 31, 2016 to RMB3,102.6 million for the year ended December 31, 2017. The decrease was primarily due to the decrease in staff costs and sundry taxes.

Our cost-to-income ratio (excluding tax and surcharges) was 27.5% and 29.4% for the year ended December 31, 2016 and 2017, respectively.

Staff costs

Staff costs are the largest component of our operating expenses, which amounted to RMB1,843.2 million for the year ended December 31, 2017, representing a decrease of 13.9% from RMB2,141.3 million for the year ended December 31, 2016, primarily due to our updated performance incentives and allocation mechanism. The following table sets forth the major components of staff costs for the periods indicated.

	For the year ended December 31,			
	2017	2016	Change in amount	Rate of change (%)
	<i>(Amounts in millions of RMB, except percentages)</i>			
Salaries, bonuses and allowances	1,201.2	1,575.7	(374.5)	(23.8)
Social insurance	275.5	321.9	(46.4)	(14.4)
Contribution to annuity funds	121.7	83.0	38.7	46.6
Housing funds	105.8	92.4	13.4	14.5
Staff welfare	102.7	49.6	53.1	107.1
Labor union fees and staff education expenses	36.3	18.7	17.6	94.1
Total	<u>1,843.2</u>	<u>2,141.3</u>	<u>(298.1)</u>	<u>(13.9)</u>

Other general and administrative expenses

Our other general and administrative expenses amounted to RMB353.9 million for the year ended December 31, 2017, representing an increase of 3.1% from RMB343.3 million for the year ended December 31, 2016.

Office expenses and rental and property management expenses

The office expenses and rental and property management expenses amounted to RMB562.3 million for the year ended December 31, 2017, representing a decrease of 0.7% from RMB566.5 million for the year ended December 31, 2016.

Depreciation and amortization

Depreciation and amortization amounted to RMB224.5 million for the year ended December 31, 2017, representing an increase of 12.4% from RMB199.7 million for the year ended December 31, 2016.

Sundry taxes

The sundry taxes amounted to RMB118.7 million for the year ended December 31, 2017, representing a decrease of 77.0% from RMB516.8 million for the year ended December 31, 2016. The decrease in sundry taxes was primarily due to the tax policy reform of replacing business tax with value-added tax, which has expanded to financial industry in China since May 1, 2016.

3.3.6 Impairment Losses

The following table sets forth the principal components of our impairment losses for the periods indicated.

	For the year ended December 31,			Rate of
	2017	2016	Change in amount	change (%)
	<i>(Amounts in millions of RMB, except percentages)</i>			
Loans and advances to customers	1,338.6	1,865.9	(527.3)	(28.3)
Investments classified as receivables	1,035.6	221.9	813.7	366.7
Off-balance sheet credit commitments	(207.3)	0.5	(207.8)	(41,560.0)
Financial assets held under resale agreements	(39.3)	251.7	(291.0)	(115.6)
Others	4.3	13.0	(8.7)	(66.9)
Total	<u>2,131.9</u>	<u>2,353.0</u>	<u>(221.1)</u>	<u>(9.4)</u>

Our impairment losses for the year ended December 31, 2017 were RMB2,131.9 million, representing a decrease of 9.4% from RMB2,353.0 million for the year ended December 31, 2016, primarily due to our impairment losses on loans and advances to customers decreasing by 28.3% from RMB1,865.9 million for the year ended December 31, 2016 to RMB1,338.6 million for the year ended December 31, 2017, primarily due to the Bank's ongoing solid asset quality.

3.3.7 Income Tax Expenses

The following table sets forth the principal components of our income tax expenses for the periods indicated.

	For the year ended December 31,			
	2017	2016	Change in amount	Rate of change (%)
	<i>(Amounts in millions of RMB, except percentages)</i>			
Profit before tax	4,882.9	5,710.4	(827.5)	(14.5)
Tax calculated at applicable statutory tax rate of 25%	1,220.7	1,427.6	(206.9)	(14.5)
Underprovision of tax in prior years	4.0	1.3	2.7	207.7
Tax effect of expense not deductible for tax purpose	25.2	7.1	18.1	254.9
Tax effect of income not taxable for tax purpose ⁽¹⁾	(310.0)	(245.3)	(64.7)	26.4
Tax effect of tax losses/deductible temporary differences not recognized	–	1.8	(1.8)	(100.0)
Income tax expense	<u>939.9</u>	<u>1,192.5</u>	<u>(252.6)</u>	<u>(21.2)</u>

Note:

- (1) The income not taxable for tax purpose mainly represents interest income arising from government bonds, which is income tax free in accordance with the PRC tax regulations.

Our income tax for the year ended December 31, 2017 amounted to RMB939.9 million, representing a 21.2% decrease from RMB1,192.5 million for the year ended December 31, 2016, which was primarily due to the decrease in our profit before tax.

3.4 Analysis of the Statement of Financial Position

3.4.1 Assets

The following table sets forth, as of the dates indicated, the components of our total assets.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of the total	Amount	% of the total
<i>(Amounts in millions of RMB, except percentages)</i>				
ASSETS				
Gross loans and advances to customers	248,880.7	35.4	214,000.7	32.5
Allowance for impairment losses	(7,243.5)	(1.0)	(6,146.2)	(0.9)
Loans and advances to customers, net	241,637.2	34.4	207,854.5	31.6
Investment securities and other financial assets, net	363,452.6	51.8	310,737.3	47.3
Financial assets held under resale agreements	9,356.8	1.3	33,277.0	5.1
Cash and deposits with central bank	57,372.5	8.2	58,107.6	8.8
Deposits with banks and other financial institutions	8,003.9	1.1	26,118.0	4.0
Placements with banks and other financial institutions	12,295.0	1.8	13,780.0	2.1
Other assets ⁽¹⁾	9,795.6	1.4	7,435.7	1.1
TOTAL ASSETS	<u>701,913.6</u>	<u>100.0</u>	<u>657,310.1</u>	<u>100.0</u>

Note:

- (1) Consists primarily of interest receivable, property and equipment, deferred tax assets, interests in associated companies, intangible assets and other receivables.

As of December 31, 2017, our total assets amounted to RMB701,913.6 million, representing an increase of 6.8% compared to RMB657,310.1 million as of December 31, 2016. The increase was mainly due to the increase in our loans and advances to customers and investment securities and other financial assets.

Loans and advances to customers

The following table sets forth, as of the dates indicated, a breakdown of our loans by business line.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of the total	Amount	% of the total
	<i>(Amounts in millions of RMB except percentages)</i>			
Corporate loans	202,547.2	81.4	182,240.3	85.2
Personal loans	34,379.2	13.8	28,515.5	13.3
Finance lease receivables	8,711.8	3.5	303.6	0.1
Discounted bills	3,242.5	1.3	2,941.3	1.4
Total	248,880.7	100.0	214,000.7	100.0

Corporate loans

Our corporate loans amounted to RMB202,547.2 million as of December 31, 2017, representing an increase of 11.1% compared to RMB182,240.3 million as of December 31, 2016. The increase in our corporate loans was in line with the development of our corporate banking business.

The following table sets forth a breakdown of our corporate loans by contract maturity as of the dates indicated.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of the total	Amount	% of the total
	<i>(Amounts in millions of RMB, except percentages)</i>			
Short-term loans (one year or less)	102,432.5	50.6	110,081.1	60.4
Medium – and long-term loans (over one year)	100,114.7	49.4	72,159.2	39.6
Total corporate loans	202,547.2	100.0	182,240.3	100.0

Short-term loans as a percentage of our corporate loan portfolio decreased from 60.4% as of December 31, 2016 to 50.6% as of December 31, 2017 and our medium- and long-term loans as a percentage of our corporate loan portfolio increased from 39.6% as of December 31, 2016 to 49.4% as of December 31, 2017. The changes in the above percentages of our corporate loan portfolio were primarily caused by the fact that certain short-term loans came to maturity and our decision to optimize our loan maturity structure.

The following table sets forth, as of the dates indicated, the distribution of our corporate loans by product type.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of the total	Amount	% of the total
	<i>(Amounts in millions of RMB, except percentages)</i>			
Working capital loans	141,073.3	69.6	136,335.5	74.7
Fixed assets loans	50,175.1	24.8	41,104.3	22.6
Trade finance	5,300.4	2.6	3,595.5	2.0
Others ⁽¹⁾	5,998.4	3.0	1,205.0	0.7
Total corporate loans	202,547.2	100.0	182,240.3	100.0

Note:

- (1) Consists primarily of advances under bank acceptance and letters of credit issued by the Bank and corporate overdraft.

Our working capital loans amounted to RMB141,073.3 million as of December 31, 2017, representing an increase of 3.5% compared to RMB136,335.5 million as of December 31, 2016. The increase in our working capital loans was primarily due to our continued efforts to extend our working capital loans to meet our SME borrowers' increasing funding needs and support their development.

Our fixed assets loans amounted to RMB50,175.1 million as of December 31, 2017, representing an increase of 22.1% compared to RMB41,104.3 million as of December 31, 2016. The increase in our fixed assets loans was primarily due to our decision to optimize our lending structure, including the type and terms of our loans.

Our trade finance amounted to RMB3,595.5 million and RMB5,300.4 million as of December 31, 2016 and December 31, 2017. Our other corporate loans amounted to RMB1,205.0 million and RMB5,998.4 million as of December 31, 2016 and December 31, 2017.

Personal loans

Our personal loans amounted to RMB34,379.2 million as of December 31, 2017, representing an increase of 20.6% compared to RMB28,515.5 million as of December 31, 2016. This increase was mainly attributable to our strategy and continued efforts to grow our retail banking business.

The following table sets forth a breakdown of our personal loans by product type as of the dates indicated.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of the total <i>(Amounts in millions of RMB, except percentages)</i>	Amount	% of the total
Residential mortgage loans	21,286.2	61.9	14,520.1	50.9
Personal consumption loans	8,793.0	25.6	10,220.7	35.8
Personal business loans	3,815.8	11.1	3,357.7	11.8
Credit card overdrafts	484.2	1.4	417.0	1.5
Total personal loans	34,379.2	100.0	28,515.5	100.0

Our residential mortgage loans amounted to RMB21,286.2 million as of December 31, 2017, representing an increase of 46.6% compared to RMB14,520.1 million as of December 31, 2016. The increase in our residential mortgage loans was primarily due to our efforts to grow our residential mortgage loan business to meet the various needs of our retail customers.

Our personal consumption loans amounted to RMB8,793.0 million as of December 31, 2017, representing a decrease of 14.0% compared to RMB10,220.7 million as of December 31, 2016.

Our personal business loans amounted to RMB3,815.8 million as of December 31, 2017, representing an increase of 13.6% compared to RMB3,357.7 million as of December 31, 2016.

Our credit card overdrafts amounted to RMB417.0 million and RMB484.2 million as of December 31, 2016 and December 31, 2017.

Finance lease receivables

Our finance lease receivables increased by 2,769.5% to RMB8,711.8 million as of December 31, 2017 from RMB303.6 million as of December 31, 2016, primarily due to the official opening of Bank of Tianjin Financial Leasing Co., Ltd on October 14, 2016, as of the end of 2016, it only launched 1 financial leasing project, with balance amounted to RMB303.6 million; while each business was under normal development in 2017, as of the end of 2017, it launched 34 financial leasing project, with balance amounted to RMB8,711.8 million, representing an increase of 2,769.5% as compared with the end of last year.

Discounted bills

Discounted bills represented an important component of our portfolio of loans and advances to customers. Our discounted bills increased by 10.2% to RMB3,242.5 million as of December 31, 2017 from RMB2,941.3 million as of December 31, 2016, primarily because we decided to improve the business volume of discounted bills properly, resulting in a relatively high market price of discounted bills in 2017.

Investment securities and other financial assets

As of December 31, 2017, the balance of our investment securities and other financial assets amounted to RMB363,452.6 million, representing an increase of 17.0% compared to RMB310,737.3 million as of December 31, 2016. This increase was mainly due to an increase of our holding of debt securities, trust beneficiary rights and assets management plans to generate higher returns.

The following table sets forth, as of December 31, 2016 and December 31, 2017, the components of our investment securities and other financial assets.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of the total	Amount	% of the total
	<i>(Amounts in millions of RMB, except percentages)</i>			
Debt securities				
Held-to-maturity investments	49,123.3	13.5	42,340.6	13.6
Debt securities classified as receivables	39,860.5	11.0	26,756.1	8.6
Available-for-sale debt securities	33,108.7	9.1	48,706.9	15.7
Debt securities held for trading	5,720.1	1.6	5,880.4	1.9
Allowance for impairment losses	(115.0)	0.0	(57.5)	(0.0)
Subtotal	127,697.6	35.2	123,626.5	39.8
Funds	3,103.6	0.9	1,824.3	0.6
Wealth management products issued by other financial institutions	67,924.6	18.7	64,717.1	20.8
Trust beneficiary rights, assets management plans, net				
Trust beneficiary rights	84,937.5	23.4	35,246.8	11.3
Asset management plans	81,347.8	22.2	85,903.1	27.7
Allowance for impairment losses	(1,617.1)	(0.4)	(639.1)	(0.2)
Subtotal	164,668.2	45.2	120,510.8	38.8
Equity investments				
Available-for-sale equity investments	58.6	0.0	58.6	0.0
Subtotal	58.6	0.0	58.6	0.0
Total investment securities and other financial assets, net	363,452.6	100.0	310,737.3	100.0

Debt securities

The following table sets forth, as of December 31, 2016 and December 31, 2017, the components of our debt securities.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of the total	Amount	% of the total
	<i>(Amounts in millions of RMB, except percentages)</i>			
PRC government bonds	39,417.5	30.9	40,887.4	33.1
Debt securities issued by PRC policy banks	39,149.4	30.6	27,272.0	22.0
Debt securities issued by PRC corporate issuers	22,065.5	17.3	14,416.9	11.7
Debt securities issued by PRC banks and other financial institutions	7,329.5	5.7	27,856.6	22.5
Asset-backed securities	19,850.7	15.5	13,251.1	10.7
Total	127,812.6	100.0	123,684.0	100.0

Our holding of debt securities issued by PRC governments decreased by 3.6% from RMB40,887.4 million as of December 31, 2016 to RMB39,417.5 million as of December 31, 2017, primarily due to our decision to invest in higher-yield assets while maintain a reasonable level of liquidity.

Our holding of debt securities issued by PRC policy banks increased by 43.6% from RMB27,272.0 million as of December 31, 2016 to RMB39,149.4 million as of December 31, 2017, which primarily due to our preference for their high liquidity and relatively low risks.

Our holding of debt securities issued by PRC corporate issuers increased by 53.1% from RMB14,416.9 million as of December 31, 2016 to RMB22,065.5 million as of December 31, 2017, which primarily due to our decision to achieve higher returns on investments whilst maintaining reasonable level of liquidity.

Our holding of debt securities issued by PRC banks and other financial institutions decreased by 73.7% from RMB27,856.6 million as of December 31, 2016 to RMB7,329.5 million as of December 31, 2017, which reflected our preference for such financial debt securities with relatively high returns.

Our holding of asset-backed securities increased by 49.8% from RMB13,251.1 million as of December 31, 2016 to RMB19,850.7 million as of December 31, 2017, which was primarily due to our increased investment in highly rated standardized assets.

Distribution of investment securities and other financial assets by investment intention

The following table sets forth, as of December 31, 2016 and December 31, 2017, the distribution of our investment securities and other financial assets by our investment intention.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of the total	Amount	% of the total
	<i>(Amounts in millions of RMB, except percentages)</i>			
Investment classified as receivables	272,338.3	74.9	211,926.5	68.2
Held-to-maturity investments	49,123.3	13.5	42,340.6	13.6
Available-for-sale financial assets	36,270.9	10.0	50,589.8	16.3
Financial assets held for trading	5,720.1	1.6	5,880.4	1.9
Total	363,452.6	100.0	310,737.3	100.0

Financial assets held under resale agreements

The table below sets forth, as of December 31, 2016 and December 31, 2017, the distribution of our financial assets held under resale agreements by collateral type.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of the total	Amount	% of the total
	<i>(Amounts in millions of RMB, except percentages)</i>			
Analyzed by collateral type:				
Bonds	8,600.2	89.6	22,825.6	68.0
Bills	993.5	10.4	10,097.5	30.1
Trust beneficial rights and asset management plans ⁽¹⁾	—	—	630.0	1.9
Gross amount	9,593.7	100.0	33,553.1	100.0
Allowance for impairment losses	(236.9)		(276.1)	
Net amount	9,356.8		33,277.0	

Note:

- (1) The underlying investments were debt instruments with fixed or determinable return and fixed term of maturity.

Our financial assets held under resale agreements amounted to RMB9,356.8 million as of December 31, 2017, representing a decrease of 71.9% compared to RMB33,277.0 million as of December 31, 2016, primarily due to our bills held under resale agreements and certain of our other financial assets held under resale agreements came to maturity.

Other components of our assets

Other components of our assets primarily consist of (i) cash and deposits with central bank, (ii) deposits with banks and other financial institutions, (iii) placements with banks and other financial institutions, and (iv) others.

Our cash and deposits with central bank amounted to RMB57,372.5 million as of December 31, 2017, representing a decrease of 1.3% compared to RMB58,107.6 million as of December 31, 2016.

Deposits with banks and other financial institutions amounted to RMB8,003.9 million as of December 31, 2017, representing a decrease of 69.4% compared to RMB26,118.0 million as of December 31, 2016. This decrease was primarily due to our adjustment of overall assets portfolio to allocate our fund resources to the higher-yielding assets while meeting our liquidity needs.

Our placements with banks and other financial institutions amounted to RMB12,295.0 million as of December 31, 2017, representing an decrease of 10.8% compared to RMB13,780.0 million as of December 31, 2016, primarily due to our adjustment of overall assets portfolio to allocate our fund resources to the higher-yielding assets while meeting our liquidity needs.

Our other assets consist primarily of interest receivable, property and equipment, deferred tax assets, interests in associated companies, intangible assets and other receivables. Our other assets increased by 31.7% from RMB7,435.7 million as of December 31, 2016 to RMB9,795.6 million as of December 31, 2017, primarily due to our interest receivable increased from RMB2,659.7 million as of December 31, 2016 to RMB4,373.4 million as of December 31, 2017, primarily contributed to the increase of interest receivable from investments classified as receivables.

3.4.2 Liabilities

The following table sets forth, as of the dates indicated, the components of our total liabilities.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of the total	Amount	% of the total
<i>(Amounts in millions of RMB, except percentages)</i>				
Due to customers	357,857.6	54.5	365,471.0	59.4
Debt securities issued	118,688.3	18.1	40,631.6	6.6
Deposits from banks and other financial institutions	77,036.4	11.7	119,333.0	19.4
Financial assets sold under repurchase agreements	50,696.4	7.7	58,805.6	9.5
Placements from banks	22,719.4	3.4	18,550.3	3.0
Borrowings from central bank	7,505.0	1.1	—	—
Income tax payable	635.1	0.1	567.2	0.1
Other liabilities ⁽¹⁾	22,019.5	3.4	12,196.6	2.0
TOTAL LIABILITIES	657,157.7	100.0	615,555.3	100.0

Note:

- (1) Consists primarily of interest payable, employee benefits payables, dividend payable, accrued liabilities, and certain other liabilities.

As of December 31, 2017, our total liabilities were RMB657,157.7 million, representing an increase of 6.8% compared to RMB615,555.3 million as of December 31, 2016.

Due to customers

As of December 31, 2017, our due to customers amounted to RMB357,857.6 million, representing a decrease of 2.1% compared to RMB365,471.0 million as of December 31, 2016. The decrease in our due to customers was primarily due to our optimization of deposit business structure.

The following table sets forth, as of December 31, 2016 and December 31, 2017, our due to customers by product type and maturity profile of deposits.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of the total <i>(Amounts in millions of RMB, except percentages)</i>	Amount	% of the total
Corporate deposits				
Demand	182,502.6	51.0	159,939.7	43.8
Time ⁽¹⁾	92,825.5	25.9	119,638.9	32.7
Subtotal	275,328.1	76.9	279,578.6	76.5
Personal deposits				
Demand	17,163.4	4.8	16,218.4	4.5
Time ⁽¹⁾	45,717.8	12.8	48,041.7	13.1
Subtotal	62,881.2	17.6	64,260.1	17.6
Others ⁽²⁾	19,648.3	5.5	21,632.3	5.9
Total due to customers	357,857.6	100.0	365,471.0	100.0

Notes:

- (1) Includes principal-protected wealth management products, which we classify as due to customers pursuant to PBoC rules.
- (2) Consists primarily of margin deposits, funds deposited with us for remittance and temporary deposits.

Our corporate deposits decreased from RMB279,578.6 million as of December 31, 2016 to RMB275,328.1 million as of December 31, 2017. The decrease in our corporate deposits was primarily due to a decrease in agreement deposits, margin deposits and notice deposits.

Our personal deposits decreased by 2.1% from RMB64,260.1 million as of December 31, 2016 to RMB62,881.2 million as of December 31, 2017. The decrease in our personal deposits was primarily due to citizens' increase in investments in fortune products, such as wealth management products, national bonds, funds and insurances, resulting from wealth management enjoying popularity and rising requirement of investment yield. In general, however, the size of our personal integrated financial asset management continued to grow.

Deposits from banks and other financial institutions

As of December 31, 2017, our deposits from banks and other financial institutions amounted to RMB77,036.4 million, representing a decrease of 35.4% from RMB119,333.0 million as of December 31, 2016. The decrease in our deposits from banks and other financial institutions primarily reflected capital sources of the Bank obtained in other ways other than the deposits from banks and other financial institutions.

Financial assets sold under repurchase agreements

As of December 31, 2017, our financial assets sold under repurchase agreements amounted to RMB50,696.4 million, representing a decrease of 13.8% from RMB58,805.6 million as of December 31, 2016. The decrease in our financial assets sold under repurchase agreements was primarily due to the change of our liquidity needs.

3.4.3 Equity

The table below sets forth the components of the equity of the Bank as of the dates indicated.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of the total	Amount	% of the total
	<i>(Amounts in millions of RMB, except percentages)</i>			
EQUITY				
Share capital	6,070.6	13.5	6,070.6	14.5
Capital reserve	10,731.1	24.0	10,699.8	25.6
Investment revaluation reserve	(575.7)	(1.3)	(215.7)	(0.5)
Surplus reserve	3,352.3	7.5	3,014.7	7.2
General reserve	8,363.5	18.7	7,136.6	17.1
Retained earnings	16,141.7	36.1	15,003.9	36.0
Equity attributable to equity holders of the Bank	44,083.5	98.5	41,709.9	99.9
Non-controlling interests	672.4	1.5	44.9	0.1
TOTAL EQUITY	44,755.9	100.0	41,754.8	100.0

As of December 31, 2017, our shareholders' equity amounted to RMB44,755.9 million, representing an increase of 7.2% compared to RMB41,754.8 million as of December 31, 2016. Equity attributable to equity holders of the Bank was RMB44,083.5 million as of December 31, 2017, representing an increase of 5.7% compared to RMB41,709.9 million as of December 31, 2016. The increase in the shareholders' equity in the year ended December 31, 2017 was caused mainly by the supplement to equity interests from net profit.

3.5 Analysis of Off-Balance Sheet Items

The following table sets forth, as of December 31, 2016 and December 31, 2017, the contractual amounts of our off-balance sheet commitments.

	As of December 31, 2017	As of December 31, 2016
	<i>(Amounts in millions of RMB)</i>	
Bank acceptance	29,021.4	48,612.3
Letters of credit	8,557.0	8,329.6
Letters of guarantee issued	6,272.4	7,693.4
Undrawn credit card commitments	1,800.0	1,625.2
Subtotal	45,650.8	66,260.5
Operating lease commitments	1,372.6	1,168.0
Capital commitments	156.3	217.3
Total	47,179.7	67,645.8

3.6 Analysis

Distribution of loans by five-category loan classification

The following table sets forth, as of December 31, 2016 and December 31, 2017, the distribution of our loan portfolio by the five-category loan classification.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of the total (Amounts in millions of RMB, except percentages)	Amount	% of the total
Normal	234,495.9	94.22	201,313.4	94.08
Special mention	10,647.4	4.28	9,512.0	4.44
Subtotal	245,143.3	98.50	210,825.4	98.52
Substandard	2,726.7	1.10	2,624.1	1.23
Doubtful	632.6	0.25	177.8	0.08
Loss	378.1	0.15	373.4	0.17
Subtotal	3,737.4	1.50	3,175.3	1.48
Total loans to customers	248,880.7	100.00	214,000.7	100.00

As of December 31, 2017, according to the five-category classification, the normal loans amounted to RMB234,495.9 million, representing an increase of RMB33,182.5 million as compared to that as of December 31, 2016. The normal loans accounted for 94.22% of all the loans of the Bank as of December 31, 2017. Loans classified as special mention were RMB10,647.4 million, representing an increase of RMB1,135.4 million as compared to that as of December 31, 2016. The loans classified as special mention accounted for 4.28% of all loans. The non-performing loans were RMB3,737.4 million, representing an increase of RMB562.1 million as compared to that as of December 31, 2016 with a non-performing loan ratio of 1.50%, representing an increase of 0.02 percentage point as compared to that as of December 31, 2016, primarily due to operational difficulties and deteriorated repayment abilities of certain of our corporate and retail customers as a result of the slowdown of the PRC economy.

Distribution of corporate loans by industry

The following table sets forth the distribution of our corporate loans by industry as of the dates indicated.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of the total	Amount	% of the total
<i>(Amounts in millions of RMB, except percentages)</i>				
Manufacturing	51,970.7	24.5	49,707.3	27.1
Wholesale and retail	39,572.8	18.7	39,334.3	21.5
Real estate	24,471.9	11.6	15,484.9	8.5
Construction	24,366.2	11.5	22,671.5	12.4
Water, environment and public facilities management	23,424.3	11.1	15,833.8	8.7
Leasing and business services	20,649.3	9.8	13,863.0	7.6
Transportation, storage and postal services	6,607.5	3.1	4,594.3	2.5
Electricity, heat, gas and water production and supply	3,941.1	1.9	3,693.1	2.0
Resident services, repair and other services	3,775.2	1.8	5,315.1	2.9
Finance	3,069.5	1.5	1,564.5	0.9
Information transmission, software and information technology services	2,542.8	1.2	2,125.9	1.2
Mining	1,491.6	0.7	1,206.9	0.7
Scientific research and technical services	1,413.0	0.7	1,077.7	0.6
Accommodation and catering	1,231.6	0.6	1,414.1	0.8
Public administration, social security and social organization	1,064.0	0.5	2,479.0	1.4
Agriculture, forestry, animal husbandry and fishery	790.8	0.4	888.2	0.5
Cultural, sports and entertainment	530.9	0.3	305.4	0.2
Health and social services	257.8	0.1	631.0	0.3
Education	88.0	0.0	353.9	0.2
Total corporate loans⁽¹⁾	211,259.0	100.0	182,543.9	100.0

Note:

(1) Consist of finance lease receivables.

For the year ended December 31, 2017, the Bank actively supported the development of the real economy with its lending structure further optimized. As of December 31, 2017, loans provided to customers in the industries of (i) manufacturing, (ii) wholesale and retail, (iii) real estate, (iv) construction and (v) water, environment and public facilities management represented the top five largest components of the Bank's corporate loans. As of December 31, 2017 and December 31, 2016, the balance of loans provided to the corporate customers in these five industries were RMB163,805.9 million and RMB143,031.8 million, respectively, accounting for 77.4% and 78.2% of the total corporate loans and advances issued by the Bank, respectively.

Distribution of Non-Performing Corporate Loans by Industry

The following table sets forth, as of the dates indicated, the distribution of our non-performing loans to corporate customers by industry.

	As of December 31, 2017			As of December 31, 2016		
	Amount	% of total	NPL ratio (%) ⁽¹⁾	Amount	% of total	NPL ratio (%) ⁽¹⁾
<i>(Amounts in millions of RMB, except percentages)</i>						
Wholesale and retail	1,430.2	45.9	3.61	1,226.1	44.8	3.12
Manufacturing	1,332.7	42.8	2.56	1,157.2	42.2	2.33
Mining	100.5	3.2	6.74	150.6	5.5	12.48
Construction	85.6	2.7	0.35	–	–	–
Transportation, storage and postal services	61.9	2.0	0.94	76.5	2.8	1.78
Real estate	46.8	1.5	0.19	32.5	1.2	0.21
Information transmission, software and information technology services	34.0	1.1	1.34	34.0	1.3	1.60
Scientific research and technical services	14.8	0.5	1.05	14.8	0.5	1.37
Agriculture, forestry, animal husbandry and fishery	7.9	0.3	1.00	23.0	0.8	2.59
Leasing and business services	–	–	–	25.0	0.9	0.18
Total non-performing corporate loans⁽¹⁾	3,114.4	100.0	1.47	2,739.7	100.0	1.50

Note:

(1) Consist of finance lease receivables.

The non-performing loan ratio for our corporate loans in the wholesale and retail industry was 3.12% and 3.61% as of December 31, 2016 and December 31, 2017, respectively. As of December 31, 2016 and December 31, 2017, non-performing corporate loans to borrowers in this industry accounted for 44.8% and 45.9% of our total non-performing corporate loans, respectively. The increase in the non-performing loan ratio for our corporate loans to borrowers in the wholesale and retail industry was primarily due to the financial condition of certain corporate borrowers deteriorated due to a general slowdown in the PRC economy.

The non-performing loan ratio for our corporate loans in the manufacturing industry was 2.33% and 2.56% as of December 31, 2016 and December 31, 2017, respectively. As of December 31, 2016 and December 31, 2017, non-performing corporate loans to borrowers in this industry accounted for 42.2% and 42.8% of our total non-performing corporate loans, respectively. The increase in the non-performing ratio for our corporate loans to borrowers in manufacturing industry primarily reflected the financial condition of certain corporate borrowers deteriorated due to a general slowdown in the PRC economy.

The non-performing loan ratio for our corporate loans in the mining industry was 12.48% and 6.74% as of December 31, 2016 and December 31, 2017, respectively. The non-performing corporate loans to borrowers in this industry accounted for 5.5% and 3.2% of our total non-performing corporate loans as of December 31, 2016 and December 31, 2017, respectively. The decrease in the non-performing ratio for our corporate loans to borrowers in mining industry primarily reflected our efforts of active management and collection of non-performing loans.

As of December 31, 2016, we did not record any non-performing loans in construction industry. As of December 31, 2017, the non-performing loan ratio of our corporate loans to construction industry is 0.35%, and the non-performing corporate loans of borrowers in this industry accounted for 2.7% of the total non-performing corporate loans of the Bank. The increase in the non-performing loan ratio of corporate loans granted by the Bank to borrowers in construction industry primarily reflected the financial condition of certain corporate borrowers deteriorated due to a general slowdown in the PRC economy.

The non-performing loan ratio for our corporate loans in the transportation, storage and postal services industry was 1.78% and 0.94% as of December 31, 2016 and December 31, 2017, respectively. As of December 31, 2016 and December 31, 2017, non-performing corporate loans to borrowers in this industry accounted for 2.8% and 2.0% of our total non-performing corporate loans, respectively. The decrease in the non-performing ratio for our corporate loans to borrowers in transportation, storage and postal services industry primarily reflected (i) our efforts of active management and collection of non-performing loans; and (ii) an increase by 43.8% in our loans to corporate borrowers in the transportation, storage and postal services industry from RMB4,594.3 million as of December 31, 2016 to RMB6,607.5 million as of December 31, 2017.

Distribution of Non-Performing Loans by Product Type

The following table sets forth, as of the dates indicated, the distribution of our non-performing loans by product type.

	As of December 31, 2017			As of December 31, 2016		
	Amount	% of total	NPL ratio (%) ⁽¹⁾	Amount	% of total	NPL ratio (%) ⁽¹⁾
<i>(Amounts in millions of RMB, except percentages)</i>						
Corporate loans⁽²⁾						
Working capital loans	2,622.2	70.2	1.86	2,250.8	70.9	1.65
Trade finance	23.6	0.6	0.45	24.4	0.8	0.68
Fixed asset loans	–	–	–	32.8	1.0	0.08
Others ⁽³⁾	468.6	12.5	7.81	431.7	13.6	35.83
Subtotal	3,114.4	83.3	1.47	2,739.7	86.3	1.50
Discounted bills	60.0	1.6	1.85	85.0	2.6	2.89
Subtotal	60.0	1.6	1.85	85.0	2.6	2.89
Personal loans						
Personal business loans	419.1	11.3	10.98	228.1	7.2	6.79
Personal consumption loans	76.2	2.0	0.87	55.7	1.8	0.54
Residential mortgage loans	36.0	1.0	0.17	43.1	1.4	0.30
Credit card overdrafts	31.7	0.8	6.54	23.7	0.7	5.68
Subtotal	563.0	15.1	1.64	350.6	11.1	1.23
Total non-performing loans	3,737.4	100.0	1.50	3,175.3	100.0	1.48

Notes:

- (1) Calculated by dividing non-performing loans in each product type by gross loans in that product type.
- (2) Total corporate loans here consist of our corporate loans and finance lease receivables.
- (3) Consists primarily of advances under bank acceptances and letters of credit issued by us and corporate overdraft.

The non-performing loan ratio for our corporate loans decreased from 1.50% as of December 31, 2016 to 1.47% as of December 31, 2017, with a 13.7% increase in our non-performing corporate loans from RMB2,739.7 million to RMB3,114.4 million. The increase in our non-performing corporate loans was primarily due to the increase of the non-performing loans of our working capital loans by 16.5% from RMB2,250.8 million as of December 31, 2016 to RMB2,622.2 million as of December 31, 2017, resulting from operational difficulties and deteriorated repayment abilities of certain of our corporate customers as a result of the slowdown in the PRC economy.

The non-performing loan ratio for our personal loans increased from 1.23% as of December 31, 2016 to 1.64% as of December 31, 2017, with a 60.6% increase in our non-performing personal loans from RMB350.6 million as of December 31, 2016 to RMB563.0 million as of December 31, 2017. The increases in our non-performing personal loans and the non-performing loan ratio for our personal loans were primarily due to the increase in our non-performing personal business loans, reflecting the operational difficulties and deteriorated repayment abilities of certain individual business during the slowdown in the PRC economy.

The non-performing loan ratio for our discounted bills decreased from 2.89% as of December 31, 2016 to 1.85% as of December 31, 2017, and the non-performing loan for our discounted bills decreased from RMB85.0 million as of December 31, 2016 to RMB60.0 million as of December 31, 2017. The decrease in the non-performing loan ratio for our discounted bills was primarily due to our efforts of active management and collection of non-performing loans.

Distribution of non-performing loans by geographical region

The following table sets forth, as of December 31, 2016 and December 31, 2017, the distribution of our non-performing loans by geographical region.

	As of December 31, 2017			As of December 31, 2016		
	Amount	% of the total	NPL ratio (%)	Amount	% of the total	NPL ratio (%)
<i>(Amounts in millions of RMB, except percentages)</i>						
Hebei Province	1,430.5	38.3	4.92	1,138.0	35.8	4.83
Tianjin	1,014.1	27.1	0.81	1,141.4	36.0	1.04
Shanghai	543.9	14.5	2.17	291.9	9.2	1.29
Shandong Province	484.4	13.0	1.39	330.7	10.4	1.16
Beijing	207.8	5.6	1.11	228.7	7.2	1.52
Sichuan Province	56.7	1.5	0.38	44.6	1.4	0.32
Total non-performing loans	3,737.4	100.0	1.50	3,175.3	100.0	1.48

Distribution of loans by collateral

The following table sets forth, as of December 31, 2016 and December 31, 2017, the distribution of our loans and advances to customers by type of collateral.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of the total	Amount	% of the total
	<i>(Amounts in millions of RMB, except percentages)</i>			
Unsecured loan	33,185.2	13.3	20,876.9	9.8
Guaranteed loan	114,429.9	46.0	99,013.3	46.2
Collateralized loans ⁽¹⁾	61,601.8	24.8	56,006.5	26.2
Pledged loans ⁽¹⁾	39,663.8	15.9	38,104.0	17.8
Total loans and advances to customers	<u>248,880.7</u>	<u>100.0</u>	<u>214,000.7</u>	<u>100.0</u>

Note:

- (1) Represents the total amount of loans fully or partially secured by collateral in each category. If a loan is secured by more than one form of security interest, the allocation is based on the primary form of security interest.

Borrowers concentration

For the year ended December 31, 2017, the Bank's total loans to its largest single borrower accounted for 6.36% of its regulatory capital while total loans to its top ten customers accounted for 41.55% of its regulatory capital, which were in compliance with regulatory requirements.

a. Indicators of concentration

Major regulatory indicators	Regulatory standard	As of December 31, 2017	As of December 31, 2016
Loan concentration ratio for the largest single customer (%)	<=10	6.36	7.83
Loan concentration ratio for the top ten customers (%)	<=50	41.55	35.76

Note: The data above are calculated in accordance with the formula promulgated by the China Banking Regulatory Commission.

b. Loans to top ten single borrowers

The following table sets forth, as of the date indicated, our loan exposure to our ten largest single borrowers, all of which were classified as normal at that date.

		As of December 31, 2017			Classification
Industry	Amount	% of total loans	% of regulatory capital ⁽¹⁾		
(Amounts in millions of RMB, except percentages)					
Borrower A	Manufacturing	3,482.4	1.40	6.36	Normal
Borrower B	Wholesale and retail	3,000.0	1.21	5.48	Normal
Borrower C	Manufacturing	2,613.7	1.05	4.77	Normal
Borrower D	Manufacturing	2,600.0	1.04	4.75	Normal
Borrower E	Real estate	2,249.0	0.90	4.11	Normal
Borrower F	Water, environment and public facilities management	2,000.0	0.80	3.65	Normal
Borrower G	Construction	1,982.7	0.80	3.62	Normal
Borrower H	Manufacturing	1,960.1	0.79	3.58	Normal
Borrower I	Manufacturing	1,492.5	0.60	2.73	Normal
Borrower J	Real estate	1,368.0	0.55	2.50	Normal
Total		22,748.4	9.14	41.55	

Note:

- (1) Represents loan balances as a percentage of our regulatory capital, calculated in accordance with the requirements of the Capital Administrative Measures and based on our financial statements prepared in accordance with PRC GAAP.

As of December 31, 2017, the loan balance of the largest single borrower of the Bank was RMB3,482.4 million, accounting for 1.40% of the total amount of loans of the Bank, and the total amount of loans of the top ten single borrowers was RMB22,748.4 million, representing 9.14% of the total amount of loans of the Bank.

Loan Aging Schedule

The following table sets forth, as of the dates indicated, our loan aging schedule.

	As of December 31, 2017		As of December 31, 2016	
	Amount	% of the total	Amount	% of the total
	<i>(Amounts in millions of RMB, except percentages)</i>			
Current loans	242,020.0	97.24	208,421.0	97.40
Loans past due but not impaired⁽¹⁾				
Up to 30 days	1,148.7	0.46	1,270.7	0.60
31 to 60 days	317.5	0.13	395.9	0.18
61 to 90 days	664.5	0.27	737.8	0.34
More than 90 days	992.6	0.40	—	—
Sub-total	3,123.3	1.26	2,404.4	1.12
Impaired loans	3,737.4	1.50	3,175.3	1.48
Sub-total	248,880.7	100.00	214,000.7	100.00
Allowances for impairment losses	(7,243.5)		(6,146.2)	
Total	241,637.2		207,854.5	

Note:

- (1) Represents the principal amount of the loans on which principal or interest is overdue but not impaired.

Changes to allowance for impairment losses

The allowance for impairment losses of loans increased by 17.9% to RMB7,243.5 million as of December 31, 2017 from RMB6,146.2 million as of December 31, 2016. This increase was mainly due to the overall increase of our total loans, and an increase in our non-performing loans.

	As of December 31, 2017		As of December 31, 2016	
	Amount	NPL ratio (%)	Amount	NPL ratio (%)
	<i>(Amounts in millions of RMB, except percentages)</i>			
Beginning of year	6,146.2	1.48	5,032.8	1.34
Net provisions for the year ⁽¹⁾	1,338.6		1,865.9	
Unwinding of discount	(78.7)		(63.0)	
Write-off and transfers	(298.7)		(730.5)	
Recoveries	136.1		41.0	
End of year	<u>7,243.5</u>	<u>1.50</u>	<u>6,146.2</u>	<u>1.48</u>

Note:

- (1) Represents the net amount of allowance for impairment losses recognized in the profit or loss statement.

3.7 Segment Report

Geographical Segment Report

In presenting information on the basis of geographical regions, operating income is gathered according to the locations of the branches or subsidiaries that generated the income. For the purpose of presentation, we categorize such information by geographical regions. The following table sets forth the total operating income of each of the geographical regions for the periods indicated.

	For the year ended December 31, 2017		2016	
	Amount	% of the total (Amounts in millions of RMB, except percentages)	Amount	% of the total
Tianjin	5,320.8	52.4	7,146.4	60.5
Shandong Province	1,213.1	12.0	1,472.3	12.5
Shanghai	728.4	7.2	992.9	8.4
Sichuan Province	1,049.5	10.3	1,124.0	9.5
Beijing	771.4	7.6	296.5	2.5
Hebei Province	980.5	9.7	769.7	6.5
Ningxia	79.6	0.8	12.9	0.1
Total	10,143.3	100.0	11,814.7	100.0

Business Segment Report

The following table sets forth, for the years indicated, the operating income of each of our principal segment.

	For the year ended December 31, 2017		2016	
	Amount	% of the total (Amounts in millions of RMB, except percentages)	Amount	% of the total
Corporate banking	7,343.6	72.4	6,114.1	51.7
Retail banking	1,756.6	17.3	2,028.8	17.2
Treasury business	1,036.2	10.2	3,661.6	31.0
Other ⁽¹⁾	6.9	0.1	10.2	0.1
Total	10,143.3	100.0	11,814.7	100.0

Note:

- (1) Consists primarily of income that are not directly attributable to any specific segment.

3.8 Analysis on Capital Adequacy Ratio

Our Bank calculated and disclosed the capital adequacy ratios according to the Administrative Measures for the Capital of Commercial Banks (Provisional)(《商業銀行資本管理辦法(試行)》)(effective since January 1, 2013) promulgated by the China Banking Regulatory Commission. As of December 31, 2017, our Bank's capital adequacy ratios met the regulatory requirements under such regulations. As of December 31, 2017, the capital adequacy ratio was 10.74%, 1.14 percentage points lower than that as of December 31, 2016 and tier-one capital adequacy ratio and core tier-one capital adequacy ratio were 8.65% and 8.64% as of December 31, 2017, 0.83 and 0.84 percentage points lower than those as of December 31, 2016, respectively.

The following table sets forth the relevant information of our Bank's capital adequacy ratio as of the dates indicated:

	As of December 31, 2017 <i>(Amounts in millions of RMB, except percentages)</i>	As of December 31, 2016
Core capital		
– Share capital	6,070.6	6,070.6
– Capital reserve and investment revaluation reserve	10,155.4	10,484.1
– Surplus reserve	3,352.3	3,014.7
– General reserve	8,363.5	7,136.6
– Retained earnings	16,141.7	15,003.9
– Non-controlling interests that may be included	260.9	20.3
Total Core Capital	44,344.4	41,730.2
Core tier-one capital	44,344.4	41,730.2
Core tier-one capital deductible items	(308.5)	(260.4)
Net core tier-one capital	44,035.9	41,469.8
Net tier-one capital	44,070.7	41,472.5
Tier-two capital		
– Net tier-two capital instruments and related premiums	7,100.0	7,520.0
– Surplus allowance for impairment losses on loans	3,506.1	2,970.9
– Non-controlling interests that may be included	69.6	5.4
Total tier-two capital	10,675.7	10,496.3
Net capital	54,746.4	51,968.8
Total risk-weighted assets	509,646.4	437,559.1
Core tier-one capital adequacy ratio <i>(expressed in percentage)</i>	8.64	9.48
Tier-one capital adequacy ratio <i>(expressed in percentage)</i>	8.65	9.48
Capital adequacy ratio (expressed in percentage)	10.74	11.88

As of December 31, 2017, the Bank's leverage ratio was 5.97%.

(Expressed in percentage)

	As of December 31, 2017	As of December 31, 2016
Leverage ratio	5.97%	5.80%

Pursuant to the Leverage Ratio Management of Commercial Bank (Amended) issued by CBRC, effective from April 2015, a minimum leverage ratio of 4% is required. The above leverage ratios are calculated according to the formula promulgated by the China Banking Regulatory Commission ("CBRC").

3.9 Risk Management

Our Bank is exposed to the following primary risks: credit risk, operational risk, market risk, liquidity risk and information technology risk. In 2017, we continuously enhanced our comprehensive risk management system and improved our risk control, continued to facilitate the establishment of an integrated and comprehensive risk management system through which we have managed to successfully meet relevant regulatory requirements, mitigate risks associated with general unstable economic conditions, and secure the sustainable development of our business. In particular, our Bank strives to maintain a risk management system to strike the balance between risk and return, so as to strictly control our risk exposure while maintaining the flexibility to allow business innovations and asset quality.

Credit Risk

Credit risk refers to risk resulting from the failure by an obligor or counterparty to fulfill its obligations under the contract or changes in its credit ratings. Our Bank is exposed to credit risks primarily associated with our corporate loan business, personal loan business and treasury business.

Our Bank has established a relatively sound authorization and credit review and extension management system. The Bank has established a credit risk management system based on the principle of vertical management for credit risk, ensured the independence of credit review and extension based on the principle of separation for loan approval and extension and approval at various levels, and established a scientific and rigorous authorization and credit review and extension management system. The Bank implements a centralized credit extension system, under which exposures to credit risk of all our banking books and that of our trading books, including credit business and non-credit business, all ways and types of credit extension are under centralized credit extension management and reviewed by review authorities or reviewer with corresponding authorization for credit review and extension.

The Bank has established credit risk management mechanism, system and procedures in line with its business nature, scale and complexity, to manage, execute and implement unified risk preferences, effectively identify, measure, control, monitor and report credit risk, so as to control credit risk within the range we can tolerate.

The Bank strives to improve our overall credit risk management capabilities through a variety of measures, such as establishing a digital credit extension management system, establishing a twelve-level loan categorization system and adopting specific programs to manage relevant risks, improving our capacity to process credit risk management by utilizing information technology, conducting post-credit extension risk management, and further enhancing credit review and monitoring. The Bank intends to develop an internal rating system on credit risk for retail and non-retail business to effectively manage the review, monitoring and risk alerts in the course of our credit extension, so as to further enhance our credit risk control capability.

Operational risk

Operational risk refers to risk caused by inadequate or problematic internal procedures, personnel and information technology systems, as well as external events. Our Bank's operational risks primarily arise from internal and external frauds, worksite safety failures, business interruptions and failures in the information technology system.

Our Bank has formulated operational risk management policies and procedures, aiming to effectively identify, assess, monitor, control and mitigate our Bank's operational risk, and minimize any losses associated with the operational risk. In addition, our Bank established "three lines of defenses" to manage operational risks on an end-to-end basis, where our business departments, risk and compliance departments and internal audit departments work closely to achieve effective risk control. Our branches and sub-branches along with our business lines and functions are the first line of defense against operational risks, taking direct responsibilities for operational risk management. The legal compliance department at our head office is the second line of defense against operational risks, responsible for formulation of our operational risk management policies, coordination, support and supervision of our operational risk management. Our audit department is the third line of defense against risk control, responsible for evaluating the effectiveness of our operational risk management policies and assessing our internal control system and compliance.

Market risk

Market risk is the risk of loss in on- and off-balance sheet positions arising from movements in market prices caused by interest rates, exchange rates and other market factors, which primarily includes interest rate risk and exchange rate risk. Our Board of Directors undertakes the ultimate responsibility for the monitoring on market risk management to ensure that the Bank effectively identifies, measures, monitors and controls the various market risks assumed by various businesses. Our senior management is responsible for formulating, regularly reviewing and supervising the implementation of policies, procedures and specific operation procedures for market risk management, keeping abreast of the level of market risk and its management and ensuring the Bank has sufficient human resources, materials, and appropriate organization structure, management information system and technical level to effectively identify, measure, monitor and control the various market risks assumed by various businesses. The Bank, through the improvement of market risk governance structure, management tool, system construction, effective measurement of market risk, controls negative effects of adverse movements in market price on the financial instrument position and relevant businesses within the reasonable range the Bank can tolerate, so as to ensure that various market risk indicators meet the regulatory requirements and operation needs.

Liquidity risk management

Liquidity risk refers to the risk of failure for commercial banks to acquire sufficient funds in a timely manner and at a reasonable cost to pay off debts due or meet the liquidity demand in line with expansion of our business operations. We are exposed to liquidity risk primarily in the funding of our lending, trading and investment activities, as well as in the management of our liquidity positions.

Our bank adopts the centralized management model for our liquidity risk management. Guided by the Board's liquidity risk management policies and led by the senior management, the headquarters and branches work in conjunction with all relevant departments to implement the centralized management model that accords with our business model and overall development plans, under which the headquarters will uniformly manage our general liquidity risks.

Liquidity risk analysis

In light of the changes in the macro environment, currency policy and regulatory policy, our Bank continues to take a prudent approach on its liquidity risk management and strives to enhance the level of liquidity risk management. By managing the liquidity risk through monitoring the maturity of assets and liabilities, the Bank also monitors several other key liquidity indicators. Our Bank also formulated asset and management strategies to mitigate liquidity risks by constantly optimizing our own asset structure and improving our liquidity management capability. Our Bank conducts stress tests for liquidity risk on a quarterly basis. In such regard, it can ensure that our Bank has sufficient liquidity.

Information technology risk management

We are subject to information technology risk which may cause our operational, legal risks and reputational risks. We continuously improved IT risk management, formulated and revised IT risk management-related policies and set up IT management system to improve IT use and ensure system, internet and data security. We also effectively reduced potential risks by enhancing management and increasing IT investment. Business Continuity Management Policies of Tianjin Bank and Business Continuity Management Measures of Tianjin Bank formulated under the leadership of the Internal Control and Compliance Department of our head office were considered and approved and issued bank-wide in May 2017; we also satisfactorily completed a range of work including continuity disaster drills for interbank card system business and other businesses, business impact analysis and impact analysis of important information system.

3.10 Business Review

Corporate Banking Business

In response to the changes of the economic and policy environment of China, we continued to strengthen our marketing capabilities and improve customer services through business innovation, and promoted the development of our corporate banking business. For the year ended December 31, 2017, our operating income from corporate banking business amounted to RMB7,343.6 million, accounting for 72.4% of the total operating income over the same period, representing an increase of 20.1% as compared to the same period last year.

As of December 31, 2017, the balance of our corporate loans (excluding discounted bills) amounted to RMB202,547.2 million, representing an increase of 11.1% as compared to that of December 31, 2016. As of the same date, RMB151,917.2 million of these loans were loans to SMEs, accounting for 75.0% of our total corporate loans and representing an increase of 12.1% as compared to that of December 31, 2016. As of December 31, 2017, our total corporate deposits amounted to RMB275,328.1 million, representing a decrease of 1.5% as compared to that of December 31, 2016. In the year ended December 31, 2017, our Bank focused on the development of fee- and commission-based corporate banking business and services, continued to refine our business structure and diversify our product portfolio. Our branches have also strengthened promotion of fee- and commission-based corporate banking products.

The balance of our loans to technology SMEs was RMB17,615.0 million as of December 31, 2017, representing a decrease of 9.8% as compared to that of December 31, 2016. Further, due to our prudent risk control, our non-performing loan ratio of SME loans was 1.92% as of December 31, 2017.

Furthermore, the Bank developed the financial leasing business through establishing Bank of Tianjin Financial Leasing Co., Ltd., which commenced its business operation on October 18, 2016. As of December 31, 2017, total assets and net profit of Bank of Tianjin Financial Leasing Co., Ltd. amounted to RMB10,046.9 million and RMB40.8 million, respectively.

Retail Banking Business

In the year ended December 31, 2017, our Bank strengthened marketing efforts to retail banking customers and continued to improve our retail banking business by diversifying the product offering of our retail banking business and enhancing the structure of our retail banking customers. For the year ended December 31, 2017, the number of our retail banking customers exceeded 8.09 million and the operating income from our retail banking business amounted to RMB1,756.6 million, accounting for 17.3% of our total operating income over the same period and representing a decrease of 13.4% as compared to the same period last year. As of December 31, 2017, the balance of our personal loans reached RMB34,379.2 million, accounting for 13.8% of our total loans to customers. As of December 31, 2017, our residential mortgage loans, personal consumption loans, personal business loans and credit card overdrafts amounted to RMB21,286.2 million, RMB8,793.0 million, RMB3,815.8 million and RMB484.2 million, respectively, and accounted for 61.9%, 25.6%, 11.1%, and 1.4%, respectively, of our total personal loans. As of that date, our total personal deposits amounted to RMB62,881.2 million, representing an decrease of 2.1% as compared to that of December 31, 2016.

In the year ended December 31, 2017, our Bank continued to enhance our product offering and the product features of credit cards. As of December 31, 2017, our Bank had issued 185,320 credit cards.

Rural Financial Services

Focusing on the characteristics of modern agriculture, we continued to improve our rural financial services, to support the development of economic sectors related to “agriculture, rural areas and farmers”. As of December 31, 2017, we established an aggregate of 32 outlets in rural area, comprising 9 primary sub-branches and 23 secondary sub-branches.

Treasury Business

In the year ended December 31, 2017, our Bank continued to focus our research on macroeconomic policies and market analysis in order to reduce the adverse impacts of market volatility, minimize the impact of a slowdown in the PRC economic development and ensure steady growth of the operating income of our treasury business. For the year ended December 31, 2017, the operating income of our treasury operations amounted to RMB1,036.2 million, accounting for 10.2% of our total operating income and representing a decrease of 71.7% as compared to the same period last year.

Money Market Transactions

In the year ended December 31, 2017, our Bank closely monitored the development and changes in the cost of capital in the money market, actively took advantage of market opportunities and increased profitability whilst ensuring liquidity. As of December 31, 2017, the balance of our deposits and placements with banks and other financial institutions and financial assets held under resale agreements reached RMB29,655.7 million, representing a decrease of 59.5% as compared to that as of December 31, 2016 and accounting for 4.2% of our total assets as of December 31, 2017. As of the same date, the balance of our deposits and placements from banks and other financial institutions and financial assets sold under repurchase agreements reached RMB150,452.2 million, representing an decrease of 23.5% as compared to that as of December 31, 2016 and accounting for 22.8% of our total liabilities as of December 31, 2017.

Investments in Securities and Other Financial Assets

In the year ended December 31, 2017, our Bank adjusted our investment strategies by further strengthening research and analysis on financial market and changes of policy environment. As of December 31, 2017, the balance of our debt securities investments was RMB127,697.6 million, representing an increase of 3.3% as compared to that as of December 31, 2016. As of December 31, 2017, the balance of our investments in debt securities issued by PRC banks and financial institutions was RMB46,478.9 million, representing an decrease of 15.7% as compared to that as of December 31, 2016.

Treasury Business Conducted on Behalf of Customers

In the year ended December 31, 2017, the wealth management business of our Bank grew rapidly because (i) our continued efforts to provide various wealth management products to meet our customers’ diversified needs, resulting in comparatively stronger market competitiveness; and (ii) we strengthened marketing efforts towards our corporate banking customers, retail banking customers and interbank customers.

As of December 31, 2017, the total outstanding amount of wealth management products issued by us was RMB120,032.6 million. For the year ended December 31, 2017, the net fee and commission income from the wealth management products issued by us amounted to RMB1,229.2 million.

International Business

For the year ended December 31, 2017, our Bank's international settlement volume amounted to US\$7,066.64 million.

4. ACQUISITION AND DISPOSAL OF ASSETS AND BUSINESS MERGER

During the Reporting Period, the Bank was not engaged in any material acquisition or disposal of assets or business merger.

5. OTHER INFORMATION

5.1 Corporate Governance Code

During the Reporting Period, our Bank continued to improve the transparency of its corporate governance to protect the interests of Shareholders and enhance corporate value.

Our Bank has established a relatively comprehensive corporate governance structure in accordance with the requirements of the Hong Kong Listing Rules. The composition of the Board and the special committees of the Board is in compliance with the requirements of the Hong Kong Listing Rules. The Bank clearly divides the responsibilities of the Shareholders' general meeting, the Board of Directors, the Board of Supervisors and senior management. The Shareholders' general meeting is the highest authority of the Bank. The Board of Directors is accountable to the Shareholders' general meeting. The Board of Directors has established six special committees which operate under the leadership of the Board and provide opinions for the Board's decisions. The Board of Supervisors supervises the stable and sound operations of the Bank and the performance of duties of the Board and senior management. Senior management under the leadership of the Board is responsible for implementing resolutions of the Board and taking charge of the daily business and management of the Bank and reporting regularly to the Board of Directors and the Board of Supervisors. The President is appointed by the Board and is responsible for the overall business and management of the Bank.

Our Bank has adopted the Corporate Governance Code (the “**Code**”) in Appendix 14 of the Hong Kong Listing Rules, and has met the requirements of the PRC commercial bank administrative measures and corporate governance and has established a sound corporate governance system. The Board believes that, our Bank has complied with the requirements of the code provisions in Appendix 14 of the Hong Kong Listing Rules during the Reporting Period.

Our Bank is committed to maintaining high standards in corporate governance. Our Bank will continue to enhance its corporate governance to ensure compliance with the Code and meeting expectations from the Shareholders and potential investors.

5.2 Directors, Supervisors and Senior Management of the Bank

As of the date of this announcement, the composition of the Board, the board of supervisors and senior management of the Bank are as follows:

The Board of the Bank comprised a total of 14 directors, including three executive directors, namely Mr. Li Zongtang (Chairman), Mr. Sun Ligu (President) and Ms. Zhang Furong (Vice President, Secretary of the Board of Directors); six non-executive directors, namely Mr. Zhao Jiawang, Mr. Yu Yang, Mr. Alistair Marshall Bulloch, Mr. Zhao Wei, Mr. Luan Fengxiang and Mr. Zeng Xiangxin and five independent non-executive directors, namely Mr. Liu Baorui, Mr. Feng Heping, Mr. Guo Tianyong, Mr. Law Yee Kwan, Quinn and Mr. Jin Qingjun.

The board of supervisors of the Bank comprised a total of five supervisors, including two employee supervisors, namely Ms. Feng Xia and Mr. Yao Tao; one shareholder supervisor, namely Ms. Cheng Yifeng; and two external supervisors, namely Mr. Zhang Lianming and Ms. Zhang Xiaoli.

The senior management of the Bank comprised a total of six members, namely Mr. Sun Ligu, Ms. Zhang Furong, Ms. Zhang Ying, Mr. Liang Jianfa, Mr. Xia Zhenwu and Mr. Wang Feng.

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

Mr. LI Zongtang, Mr. SUN Ligu, Mr. ZHAO Jiawang and Mr. JIN Qingjun (collectively the “**New Directors**”) were appointed as Directors by the Shareholders of the Bank at the 2017 first extraordinary general meeting held on February 16, 2017. The qualifications of the New Directors as Directors of the Bank have been approved by CBRC Tianjin Office and the term of office of the New Directors commenced from March 14, 2017. Announcements regarding the appointment of the New Directors as Directors were published on August 30, 2016, December 21, 2016, February 16, 2017 and March 14, 2017.

The Board proposed the appointment of Mr. SUN Ligu as the president of the Bank on December 21, 2016 and the term of office of Mr. SUN Ligu as president of the Bank commenced from February 24, 2017. For details, please refer to the announcements of the Bank dated December 21, 2016 and February 28, 2017.

The Board adopted a resolution to elect Mr. LI Zongtang as chairman of the Board at the eleventh meeting of the fifth session of the Board held on February 16, 2017 and the term of office of Mr. LI as chairman of the Board commenced from March 17, 2017. For details, please refer to the announcements of the Bank dated February 16, 2017 and March 17, 2017.

Mr. WANG Feng was appointed as assistant to president at the tenth meeting of the fifth session of the Board held on December 21, 2016. The qualification of Mr. WANG as assistant to president of the Bank has been approved by the CBRC Tianjin Office and the term of office of Mr. WANG as assistant to president commenced from April 6, 2017.

Mr. ZHANG Xiang tendered his resignation as the chairman of the Board of Supervisors, a member of the nomination committee of the Board of Supervisors, a member of the supervision committee of the Board of Supervisors and an employee representative Supervisor during the Reporting Period. His resignation as the chairman of the Board of Supervisors became effective upon the receipt of his resignation letter by the Board of Supervisors on May 3, 2017, and his resignation as a member of the nomination committee of the Board of Supervisors and a member of the supervision committee of the Board of Supervisors took effect upon the approval of his resignation by the Board of Supervisors on May 11, 2017, while his resignation as an employee representative Supervisor took effect from January 19, 2018. For details, please refer to the announcements of the Bank dated May 4, 2017 and January 19, 2018.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules.

5.4 Securities Transactions by Directors, Supervisors and Relevant Employees

The Bank adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “**Model Code**”) as set out in Appendix 10 to the Hong Kong Listing Rules as its codes of conduct regulating securities transactions by the directors and supervisors of the Bank.

Having made specific enquiries to all Directors and Supervisors, each of the Directors and Supervisors has confirmed that they complied with the Model Code during the Reporting Period.

5.5 Profits and Dividends

The Bank’s revenue for the year ended December 31, 2017 and the Bank’s financial position as of the same date are set out in the section headed “Annual Financial Statements” of this annual results announcement.

The profit distribution plan for 2016 of the Bank was considered and approved by the Shareholders at the 2016 annual general meeting of the Bank held on May 12, 2017. A final dividend of RMB2.0 (tax inclusive) per ten Shares for the year of 2016, amounting to a total dividend of RMB1,214.11 million (tax inclusive) was distributed to holders of H Shares and Domestic Shares on July 6, 2017.

The Board has recommended the payment of the final dividend of RMB1.8 per ten shares (tax inclusive) in cash for the year ended December 31, 2017, representing a total payment of approximately RMB1,092.7 million. The final dividend is subject to approval of the shareholders at the annual general meeting of the Bank for 2017. If approved, the final dividend of the Bank for the year ended December 31, 2017 will be denominated and declared in Renminbi. Distribution of the dividends to holders of domestic shares of the Bank will be paid in Renminbi, while dividends to holders of H shares of the Bank will be paid in Hong Kong dollars. For such conversion, Renminbi will be converted into Hong Kong dollars based on the average middle exchange rate of the five business days preceding May 11, 2018 (inclusive), being the date of the Bank’s 2017 annual general meeting, as announced by the People’s Bank of China. If approved by the Bank’s 2017 annual general meeting, it is expected the final dividend will be payable on July 6, 2018. The H shares register of members of the Bank will be

closed from Thursday, May 17, 2018 to Tuesday, May 22, 2018 (both days inclusive). Shareholders whose names appear on the register of H share register of members and domestic share register of members of the Bank on Tuesday, May 22, 2018 will be entitled to receive the final dividend. The holders of H Shares who qualify for receiving the final dividend must lodge all the transfer documents accompanied by the relevant H share certificates with the H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong to process the registration not later than 4:30 p.m. on Wednesday, May 16, 2018.

5.6 Purchase, Sale and Redemption of The Listed Securities of The Bank

During the Reporting Period, the Bank or any of its subsidiaries had not purchased, sold or redeemed any listed securities of the Bank.

5.7 Review of the Final Results

The final financial statements for the year ended December 31, 2017 prepared by the Bank in accordance with the IFRSs promulgated by the International Accounting Standards Board have been audited by Deloitte Touche Tohmatsu in accordance with the International Standard on Auditing.

The Board and the audit committee of the Board have reviewed and approved the final results of the Bank.

5.8 Use of Proceeds

The proceeds from issuance of H shares of the Bank had been used in accordance with the intended usage as disclosed in the prospectus of the Bank. The net proceeds raised from the global offering of the Bank (after deduction of the underwriting fees and commissions and estimated expenses payable by the Bank in connection with the global offering) had been used to strengthen the capital of the Bank to support the ongoing growth of its business.

5.9 Subsequent Events

On January 12, 2018, Mr. Yue Desheng, executive director and vice president of the Bank, tendered his resignation from the position of executive director of the Bank, member of the related party transactions control committee, risk management committee and consumer rights protection committee under the Board and vice president of the Bank for work adjustment reasons. Mr. Yue Desheng's resignation has become effective since January 12, 2018. For details, please refer to the announcement named "RESIGNATION OF EXECUTIVE DIRECTOR AND VICE PRESIDENT" issued by the Bank on January 12, 2018.

On January 19, 2018, Ms. Feng Xia tendered her resignation as shareholder representative supervisor and a member of the supervision committee of the Board of Supervisors, on the same date, she was elected as an employee representative Supervisor, the chairman of the Board of Supervisors, a member of the supervision committee of the Board of Supervisors and a member of the nomination committee of the Board of Supervisors, the resignations and appointments above became effective since January 19, 2018. For details, please refer to the announcement named “CHANGE OF SUPERVISORS AND APPOINTMENT OF CHAIRMAN OF BOARD OF SUPERVISORS” issued by the Bank on January 19, 2018.

Approved by Tianjin Office of China Banking Regulatory Commission and PBoC, the Bank issued tier-two capital bonds in the national inter-bank bond market on January 18, 2018, and the fund raising was completed on January 22. This tranche of bonds totaled RMB10 billion, with a maturity of 10 years at a fixed interest rate and a nominal interest rate of 4.8%, subject to the issuer’s right to redeem under certain conditions at the end of the fifth year. The funds raised from this tranche of bonds will be replenished the Bank’s tier-two capital in compliance with applicable laws and approvals from relevant regulatory authorities.

Save the disclosures above, no other significant events occurred to the Bank after the Reporting Period.

6. ANNUAL FINANCIAL STATEMENTS

6.1 Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	2017	2016
Interest income	27,894,735	25,202,576
Interest expense	(19,493,523)	(14,843,351)
Net interest income	8,401,212	10,359,225
Fee and commission income	2,112,839	1,442,473
Fee and commission expense	(79,374)	(40,421)
Net fee and commission income	2,033,465	1,402,052
Net trading losses	(172,619)	(120,090)
Net gains arising from investment securities	15,601	63,342
Other income, gains or losses	(134,343)	110,207
Operating income	10,143,316	11,814,736
Operating expenses	(3,102,593)	(3,767,642)
Impairment losses	(2,131,853)	(2,352,964)
Share of results of associates	(25,932)	16,244
Profit before tax	4,882,938	5,710,374
Income tax expense	(939,874)	(1,192,470)
Profit for the year	3,943,064	4,517,904
Other comprehensive expense		
Items that may be reclassified subsequently to profit or loss:		
Net changes in investment revaluation reserve for available-for-sale financial assets	(480,095)	(508,895)
Income tax effect	120,024	127,224
Other comprehensive expense for the year, net of income tax	(360,071)	(381,671)
Total comprehensive income for the year	3,582,993	4,136,233

	2017	2016
Profit for the year attributable to:		
Equity holders of the Bank	3,916,386	4,522,053
Non-controlling interests	<u>26,678</u>	<u>(4,149)</u>
	<u>3,943,064</u>	<u>4,517,904</u>
Total comprehensive income attributable to:		
Equity holders of the Bank	3,556,315	4,140,382
Non-controlling interests	<u>26,678</u>	<u>(4,149)</u>
	<u>3,582,993</u>	<u>4,136,233</u>
Earnings per share attributable to equity holders of the Bank (Expressed in RMB Yuan per share)		
– Basic	<u>0.65</u>	<u>0.77</u>
– Diluted	<u>0.65</u>	<u>0.77</u>

6.2 Consolidated Statement of Financial Position

As at December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	2017	2016
ASSETS		
Cash and balances with central bank	57,372,466	58,107,633
Deposits with banks and other financial institutions	8,003,859	26,118,021
Placements with banks and other financial institutions	12,295,007	13,779,965
Financial assets held for trading	5,720,098	5,880,431
Financial assets held under resale agreements	9,356,836	33,277,007
Loans and advances to customers	241,637,249	207,854,530
Available-for-sale financial assets	36,270,946	50,589,734
Held-to-maturity investments	49,123,275	42,340,601
Investments classified as receivables	272,338,316	211,926,509
Interests in associates	203,863	184,995
Property and equipment	1,653,828	1,686,422
Deferred tax assets	2,237,505	1,698,048
Other assets	5,700,341	3,866,211
Total assets	<u>701,913,589</u>	<u>657,310,107</u>
LIABILITIES		
Borrowings from central bank	7,505,000	—
Deposits from banks and other financial institutions	77,036,368	119,333,012
Placements from banks	22,719,415	18,550,308
Financial assets sold under repurchase agreements	50,696,397	58,805,600
Due to customers	357,857,635	365,470,957
Income tax payable	635,060	567,216
Debt securities issued	118,688,315	40,631,584
Other liabilities	22,019,537	12,196,650
Total liabilities	<u>657,157,727</u>	<u>615,555,327</u>
EQUITY		
Share capital	6,070,552	6,070,552
Capital reserve	10,731,130	10,699,811
Investment revaluation reserve	(575,715)	(215,644)
Surplus reserve	3,352,331	3,014,661
General reserve	8,363,493	7,136,619
Retained earnings	16,141,662	15,003,930
Equity attributable to equity holders of the Bank	44,083,453	41,709,929
Non-controlling interests	672,409	44,851
Total equity	<u>44,755,862</u>	<u>41,754,780</u>
Total equity and liabilities	<u>701,913,589</u>	<u>657,310,107</u>

6.3 Consolidated Statement of Changes in Equity

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	Attributable to equity holders of the Bank							Non-controlling interests	Total
	Share capital	Capital reserve	Investment revaluation reserve	Surplus reserve	General reserve	Retained earnings	Subtotal		
As at January 1, 2017	6,070,552	10,699,811	(215,644)	3,014,661	7,136,619	15,003,930	41,709,929	44,851	41,754,780
Profit for the year	-	-	-	-	-	3,916,386	3,916,386	26,678	3,943,064
Other comprehensive expense for the year	-	-	(360,071)	-	-	-	(360,071)	-	(360,071)
Total comprehensive income for the year	-	-	(360,071)	-	-	3,916,386	3,556,315	26,678	3,582,993
Contributions from non-controlling shareholders	-	31,319	-	-	-	-	31,319	600,880	632,199
Appropriation to surplus reserve	-	-	-	337,670	-	(337,670)	-	-	-
Appropriation to general reserve	-	-	-	-	1,226,874	(1,226,874)	-	-	-
Dividend distribution	-	-	-	-	-	(1,214,110)	(1,214,110)	-	(1,214,110)
As at December 31, 2017	<u>6,070,552</u>	<u>10,731,130</u>	<u>(575,715)</u>	<u>3,352,331</u>	<u>8,363,493</u>	<u>16,141,662</u>	<u>44,083,453</u>	<u>672,409</u>	<u>44,755,862</u>
As at January 1, 2016	<u>5,126,048</u>	<u>5,990,757</u>	<u>166,027</u>	<u>2,563,024</u>	<u>5,819,593</u>	<u>13,358,202</u>	<u>33,023,651</u>	<u>224,053</u>	<u>33,247,704</u>
Profit for the year	-	-	-	-	-	4,522,053	4,522,053	(4,149)	4,517,904
Other comprehensive expense for the year	-	-	(381,671)	-	-	-	(381,671)	-	(381,671)
Total comprehensive income for the year	-	-	(381,671)	-	-	4,522,053	4,140,382	(4,149)	4,136,233
Issuance of shares	944,504	4,890,668	-	-	-	-	5,835,172	-	5,835,172
Expense related to share issuance	-	(180,933)	-	-	-	-	(180,933)	-	(180,933)
Contributions from non-controlling shareholders	-	-	-	-	-	-	-	49,000	49,000
Appropriation to surplus reserve	-	-	-	451,637	-	(451,637)	-	-	-
Appropriation to general reserve	-	-	-	-	1,319,476	(1,319,476)	-	-	-
Dividend distribution	-	-	-	-	-	(1,092,699)	(1,092,699)	(9,750)	(1,102,449)
Others	-	(681)	-	-	(2,450)	(12,513)	(15,644)	(214,303)	(229,947)
As at December 31, 2016	<u>6,070,552</u>	<u>10,699,811</u>	<u>(215,644)</u>	<u>3,014,661</u>	<u>7,136,619</u>	<u>15,003,930</u>	<u>41,709,929</u>	<u>44,851</u>	<u>41,754,780</u>

6.4 Consolidated Statement of Cash Flows

For the year ended December 31, 2017

(Amounts in thousands of Renminbi, unless otherwise stated)

	2017	2016
OPERATING ACTIVITIES		
Profit before tax	4,882,938	5,710,374
Adjustments for:		
Depreciation and amortization	224,498	199,679
Impairment losses	2,131,853	2,352,964
Share of results of associates	25,932	(16,244)
Interest income arising from investment securities	(14,343,675)	(12,051,035)
Interest income arising from impaired financial assets	(78,730)	(63,020)
Interest expense arising from debt securities issued	3,922,701	1,180,400
Net unrealized trading losses	147,384	103,127
Net gains arising from investment securities	(15,601)	(63,342)
Unrealized exchange losses/(gains)	80,362	(176,713)
Dividend income from investment securities	(5,000)	(6,420)
Other income, gains or losses	60,440	138,061
Operating cash flows before movements in working capital	(2,966,898)	(2,692,169)
Decrease in balances with central bank and deposits with banks and other financial institutions	8,418,674	3,020,009
(Increase)/decrease in placements with banks and other financial institutions	(243,357)	1,123,158
Decrease/(increase) in financial assets held for trading	12,949	(15,225)
Decrease in financial assets held under resale agreements	6,703,995	25,054,266
Increase in loans and advances to customers	(35,235,867)	(31,662,232)
Increase/(decrease) in borrowings from central bank	7,505,000	(237,357)
Decrease in deposits from banks and other financial institutions	(42,296,644)	(29,399,643)
Increase in placements from banks	4,169,107	14,266,678
(Decrease)/increase in financial assets sold under repurchase agreements	(8,109,203)	44,248,347
(Decrease)/increase in due to customers	(7,613,322)	30,779,931
Increase in other operating assets	(968,889)	(120,404)
Increase/(decrease) in other operating liabilities	9,741,543	(3,088,946)
Cash (used in)/generated by operating activities	(60,882,912)	51,276,413
Income tax paid	(1,291,463)	(1,749,005)
Net cash (used in)/generated by operating activities	(62,174,375)	49,527,408

	2017	2016
INVESTING ACTIVITIES		
Cash received from disposal and redemption of investment securities	1,210,957,082	767,166,526
Cash received from disposal of property and equipment and other assets	28,350	11,344
Cash paid for purchase of investment securities	(1,265,393,212)	(875,327,157)
Cash paid for purchase of property and equipment and other assets	(218,754)	(290,249)
Interest income received from investment securities	13,805,174	12,114,377
Dividend income from investment securities	5,000	6,420
	<u> </u>	<u> </u>
Net cash used in investing activities	(40,816,360)	(96,318,739)
FINANCING ACTIVITIES		
Cash received from share issuance	–	5,835,172
Contributions from non-controlling shareholders	632,199	49,000
Expense paid related to share issuance	–	(180,933)
Cash received from debt securities issued	257,606,433	61,980,544
Repayment of debt securities issued	(180,578,660)	(35,488,708)
Interest expenses paid for debt securities issued	(2,667,700)	(944,422)
Dividends paid	(1,211,476)	(1,066,303)
	<u> </u>	<u> </u>
Net cash generated by financing activities	73,780,796	30,184,350
	<u> </u>	<u> </u>
Net decrease in cash and cash equivalents	(29,209,939)	(16,606,981)
Cash and cash equivalents at beginning of the year	52,231,121	68,425,701
Effect of foreign exchange rate changes	(204,457)	412,401
	<u> </u>	<u> </u>
Cash and cash equivalents at end of the year	22,816,725	52,231,121
	<u> </u>	<u> </u>
Net cash generated by operating activities include:		
Interest received	15,513,042	14,969,000
Interest paid	(14,654,175)	(12,552,518)
	<u> </u>	<u> </u>
Net interest received from operating activities	858,867	2,416,482
	<u> </u>	<u> </u>

7. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7.1 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) for the first time in current year.

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle

Except as described below, the application of these amendments to the IFRSs in the current year has had no material impact on the Group’s financial performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specially, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in the financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure, the application of these amendments has had no impact on the Group’s consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
IFRS 16	Leases ²
IFRIC 22	Foreign Currency Transactions and Advance Consideration ¹
IFRIC 23	Uncertainty over Income Tax Treatments ²
Amendments to IFRS 9	Prepayment Features with Negative Compensation ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle ¹
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle ²

¹ Effective for annual periods beginning on or after January 1, 2018.

² Effective for annual periods beginning on or after January 1, 2019.

³ Effective for annual periods beginning on or after a date to be determined.

Except for the new and amendments to IFRSs mentioned below, the directors of the Bank anticipate that the application of all other new and amendments to IFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

IFRS 9 Financial Instruments

IFRS 9 introduced new requirements for the classification and measurement of financial assets and financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Based on the Group's financial instruments and risk management policies as at December 31, 2017, the directors of the Bank anticipate the following potential impact on initial application of IFRS 9:

Classification and measurement

- Listed debt instruments classified as available-for-sale financial assets carried at fair value: some of these financial assets satisfy the contractual cash flow characteristics tests, and are held within a business model whose objective is achieved by both collecting contractual cash flows and selling these debt instruments in the open market. Accordingly, these financial assets will continue to be subsequently measured at FVTOCI upon the applications of IFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the debt instruments are derecognized. Some of these financial assets fail the contractual cash flow characteristics test and therefore will be measured subsequently at fair value with fair value gains or losses to be recognized in profit or loss instead of other comprehensive income under IFRS 9. Upon initial application of IFRS 9, investment revaluation reserve relating to these financial assets subsequently measured at fair value through profit or loss will be transferred to retained earnings as at January 1, 2018.
- Listed fund investments classified as available-for-sale financial assets carried at fair value: these financial assets will be measured at fair value with subsequent fair value gains or losses to be recognized in profit or loss. Upon initial application of IFRS 9, investment revaluation reserve relating to these financial assets subsequently measured at fair value through profit or loss will be transferred to retained earnings as at January 1, 2018.
- Equity instruments classified as available-for-sale financial assets carried at cost less impairment: these instruments will be measured at fair value with subsequent fair value gains or losses to be recognized in profit or loss. Upon initial application of IFRS 9, the directors of the Bank consider that the amortized cost of these instruments approximate their fair value.
- Debt instruments classified as receivable carried at amortized cost: some of these financial assets are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, they will continue to be subsequently measured at amortized cost upon the application of IFRS 9. Some other financial assets satisfy the contractual cash flow characteristics tests, and are held within a business model whose objective is achieved by both collecting contractual cash flows and selling these debt instruments in the open market. Accordingly, these financial assets will subsequently be measured at FVTOCI upon the applications

of IFRS 9. In addition, some of these financial assets fail the contractual cash flow characteristics test and therefore will be measured subsequently at fair value with fair value gains or losses to be recognized in profit or loss under IFRS 9. Fair value changes of these financial assets will be adjusted to investment revaluation reserve or retained earnings as at January 1, 2018.

- Wealth management products, asset management plans and trust beneficiary rights classified as receivables carried at amortized cost: some of these financial assets will be measured at fair value with subsequent fair value gains or losses to be recognized in profit or loss upon the application of IFRS 9 because the contractual cash flows are not solely payments of principal and interest on the principal outstanding. Upon initial application of IFRS 9, the fair value changes will be adjusted to retained earnings as at January 1, 2018. The rest of these investments are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these instruments will continue to be subsequently measured at amortized cost upon the application of IFRS 9.
- All other financial assets and financial liabilities will continue to be measured on the same basis as are currently adopted under IAS 39.

Impairment

In general, the directors of the Bank anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortized costs and other items that are subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the directors of the Bank, the adoption of the new classification and measurement basis and expected credit loss model mentioned above in respect of financial assets will decrease the total equity as at January 1, 2018 by no more than 2% of the amount as at December 31, 2017.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In 2016, IASB issued clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Bank anticipate that the application of IFRS 15 in the future may result in more disclosures, however, they do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

Under IAS 17, the Group has already recognized an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB1,372.6 million. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits received of RMB57 million as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortized cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

7.2 Net Interest Income

	Year ended December 31	
	2017	2016
Interest income:		
Loans and advances to customers, including:		
Corporate loans and advances	9,054,002	8,550,426
Personal loans and advances	1,498,077	1,296,992
Discounted bills	100,227	165,940
Finance lease	228,357	1,780
Balances with central bank	832,184	833,818
Deposits with banks and other financial institutions	556,032	658,673
Placements with banks and other financial institutions	653,640	369,654
Financial assets held under resale agreements	503,743	1,151,118
Investments, including:		
Bonds investment	4,016,448	2,920,124
Other investments classified as receivables*	10,452,025	9,254,051
Subtotal	27,894,735	25,202,576
Interest expense:		
Deposits from banks and other financial institutions	(4,240,365)	(3,860,563)
Placements from banks	(533,129)	(138,669)
Financial assets sold under repurchase agreements	(1,971,998)	(546,316)
Due to customers	(8,744,829)	(9,117,308)
Debt securities issued	(3,922,701)	(1,180,400)
Borrowings from central bank	(80,501)	(95)
Subtotal	(19,493,523)	(14,843,351)
Net interest income	8,401,212	10,359,225
Including: Interest income on impaired financial assets	78,730	63,020

* Other investments classified as receivables include trust beneficiary rights, wealth management products and asset management plans.

Notes:

- (i) Total interest income arising from financial assets that are not at fair value through profit or loss for the year ended December 31, 2017 amounted to RMB27,770 million (2016:RMB25,079 million).
- (ii) Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the year ended December 31, 2017 amounted to RMB19,494 million (2016:RMB14,843 million).

7.3 Net Fee and Commission Income

	Year ended December 31	
	2017	2016
Fee and commission income		
Wealth management service fees	1,229,197	860,912
Acceptance and guarantee commitment fees	194,369	186,818
Settlement and clearing fees	157,350	168,066
Agency commissions and fiduciary service fees	237,431	165,983
Bank card fees	35,249	33,396
Consultancy fees	258,976	25,762
Others	267	1,536
Subtotal	2,112,839	1,442,473
Fee and commission expense	(79,374)	(40,421)
Total	2,033,465	1,402,052

7.4 Net Trading Losses

	Year ended December 31	
	2017	2016
Realized losses from debt securities	(25,235)	(16,963)
Unrealized losses from debt securities	(147,384)	(103,127)
Total	(172,619)	(120,090)

Net trading gains or losses arise from buying and selling of, and changes in the fair value of financial assets held for trading.

7.5 Net Gains Arising from Investment Securities

	Year ended December 31	
	2017	2016
Net gains on disposal of available-for-sale financial assets	15,601	63,342

7.6 Other Income, Gains or Losses

	<i>Note</i>	Year ended December 31	
		2017	2016
Dividends income		5,000	6,420
Government subsidies		11,488	43,911
Exchange (losses)/gains		(81,271)	177,222
Dormant accounts		3,381	10,209
Provision	(1)	(60,000)	(145,600)
Rental income		5,385	6,138
Others		(18,326)	11,907
Total		<u>(134,343)</u>	<u>110,207</u>

Note:

(1) Provision was made in relation to the Group's legal proceedings.

7.7 Operating Expenses

	<i>Notes</i>	Year ended December 31	
		2017	2016
Staff costs	(1)	1,843,233	2,141,339
Office expenses		222,420	252,188
Rental and property management expenses		339,916	314,332
Other general and administrative expenses	(2)	353,875	343,290
Sundry taxes		118,651	516,814
Depreciation		144,427	134,620
Amortization		80,071	65,059
Total		<u>3,102,593</u>	<u>3,767,642</u>

Notes:

(1) Staff costs

	Year ended December 31	
	2017	2016
Salaries, bonuses and allowances	1,201,147	1,575,616
Social insurance	275,537	321,926
Housing funds	105,848	92,416
Staff welfare	102,690	49,638
Labor union fees and staff education expenses	36,288	18,738
Contribution to annuity funds	121,723	83,005
Total	<u>1,843,233</u>	<u>2,141,339</u>

(2) The Group's statutory audit fee for the year ended December 31, 2017 was RMB2.95 million (2016: RMB2.99 million).

7.8 Impairment Losses

	Year ended December 31	
	2017	2016
Loans and advances to customers	1,338,595	1,865,883
Off-balance sheet credit commitments	(207,334)	514
Investments classified as receivables	1,035,542	221,920
Financial assets held under resale agreements	(39,250)	251,714
Others	4,300	12,933
Total	<u>2,131,853</u>	<u>2,352,964</u>

7.9 Income Tax Expense

	Year ended December 31	
	2017	2016
Income tax expense comprises:		
Current income tax		
– PRC Enterprise Income Tax	1,359,307	1,618,853
Deferred tax	(419,433)	(426,383)
Total	<u>939,874</u>	<u>1,192,470</u>

PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profit for the year.

The tax charge for the year can be reconciled to profit before tax per the consolidated statement of profit or loss as follows:

	Year ended December 31	
<i>Note</i>	2017	2016
Profit before tax	4,882,938	5,710,374
Tax calculated at applicable statutory tax rate of 25%	1,220,735	1,427,594
Underprovision of tax in prior years	3,972	1,332
Tax effect of expenses not deductible for tax purpose	25,173	7,128
Tax effect of income not taxable for tax purpose (1)	(310,006)	(245,348)
Tax effect of tax losses/deductible temporary differences not recognized	–	1,764
Income tax expense	<u>939,874</u>	<u>1,192,470</u>

Note:

- (1) The income not taxable for tax purpose mainly represents interest income arising from government bonds, which is income tax free in accordance with the PRC tax regulations.

7.10 Earnings Per Share

The calculation of basic and diluted earnings per share is as follows:

	Year ended December 31	
	2017	2016
Earnings:		
Profit for the year attributable to equity holders of the Bank	3,916,386	4,522,053
Numbers of shares:		
Weighted average number of shares in issue (in thousand)	6,070,552	5,838,503
Basic earnings per share (RMB Yuan)	0.65	0.77
Diluted earnings per share (RMB Yuan)	0.65	0.77

The Group did not have any dilutive event in 2017. Since the exercise price of the Bank's over-allotment share option in 2016 was higher than the average market price of shares for the option period, the exercise of the share option would not have a dilutive effect on earnings per share for the year ended December 31, 2016.

7.11 Dividends

	<i>Notes</i>	Year ended December 31	
		2017	2016
2015 Final Dividend	(1)	–	1,092,699
2016 Final Dividend	(2)	1,214,110	–

Notes:

- (1) A final dividend of RMB18 cents per share (tax inclusive) in respect of the year ended 31 December, 2015 amounting in a total of RMB1,093 million was proposed by the board of directors and approved by the 2015 annual general meeting on 21 June, 2016.
- (2) A final dividend of RMB20 cents per share (tax inclusive) in respect of the year ended 31 December, 2016 amounting in a total of RMB1,214 million was proposed by the board of directors and approved by the 2016 annual general meeting on 12 May, 2017.

7.12 Interests in Associates

The balance of interests in associates is as follows:

	As at December 31	
	2017	2016
Unlisted shares, at cost	223,000	174,000
Share of post-acquisition (losses) / profits and other comprehensive income	(19,137)	10,995
Total	203,863	184,995

Details of the Bank's associates as at December 31, 2017 are set out below:

Name of entity	Type of legal entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Share capital/ registered capital as at December 31, 2017	Proportion of ownership and voting rights held by the Group		Principal activities
				(In RMB'000)	As at December 31, 2017	As at December 31, 2016	
					%	%	
Tianjin Jixian County Bank Company Limited (天津市薊州村鎮銀行股份有限公司)	Limited company	Tianjin, PRC	August 2008	300,000	35	35	Banking
AlaEr JinHui County Bank Company Limited (阿拉爾津匯村鎮銀行有限責任公司)	Limited liability company	Xinjiang, PRC	August 2016	50,000	40	40	Banking
Tiemenguan Jinhui County Bank Company Limited (鐵門關津匯村鎮銀行有限責任公司)	Limited liability company	Xinjiang, PRC	September 2016	50,000	49	49	Banking
HuTuBi JinHui County Bank Company Limited (呼圖壁津匯村鎮銀行有限責任公司)	Limited liability company	Xinjiang, PRC	September 2016	50,000	49	49	Banking
TaCheng JinHui County Bank Company Limited (塔城津匯村鎮銀行有限責任公司)	Limited liability company	Xinjiang, PRC	June 2017	50,000	49	N.A	Banking
FuKang JinHui County Bank Company Limited (阜康津匯村鎮銀行有限責任公司)	Limited liability company	Xinjiang, PRC	August 2017	50,000	49	N.A	Banking

For the year ended December 31, 2017, the total amount of associated companies' operating income was RMB102 million. Total assets and total equity as at December 31, 2017 were RMB3,496 million and RMB511 million respectively. They represent 1.00%, 0.50% and 1.14% to the Group's operating income, total assets, and total equity respectively. For the year ended December 31, 2016, the total amount of associated companies' operating income was RMB118 million. Total assets and total equity as at December 31, 2016 were RMB2,364 million and RMB486 million respectively. They represent 1.00%, 0.36%, and 1.16% to the Group's operating income, total assets, and total equity respectively. Directors of the Bank consider that these associates are immaterial to the Group.

7.13 Debt Securities Issued

	<i>Notes</i>	As at December 31	
		2017	2016
12 Tianjin Bank bonds 01	(1)	1,500,000	1,500,237
12 Tianjin Bank bonds 02	(2)	1,198,986	1,199,407
15 Tianjin Bank bonds 01	(3)	2,499,365	2,571,381
15 Tianjin Bank bonds 02	(4)	2,499,305	2,561,646
15 Tianjin Bank bonds	(5)	4,993,797	5,079,325
Tianjin Bank 1-month negotiable certificates of deposit	(6)	6,375,449	–
Tianjin Bank 3-month negotiable certificates of deposit	(7)	32,554,492	5,482,800
Tianjin Bank 6-month negotiable certificates of deposit	(8)	32,055,517	10,815,575
Tianjin Bank 9-month negotiable certificates of deposit	(9)	21,471,049	7,772,020
Tianjin Bank 1-year negotiable certificates of deposit	(10)	13,540,355	3,649,193
Total		<u>118,688,315</u>	<u>40,631,584</u>

Notes:

- (1) The 10 year fixed-rate subordinated bonds were issued on December 27, 2012 by the Bank at a face value of RMB1.5 billion with a fixed coupon rate of 5.90% per annum, payable annually. The Bank has an option to redeem all of the bonds at face value on the last day of the fifth year. The Bank did not exercise this option and the interest rate remained at 5.90% per annum.
- (2) The 15 year fixed-rate subordinated bonds were issued on December 27, 2012 by the Bank at a face value of RMB1.2 billion with a fixed coupon rate of 5.99% per annum, payable annually. The Bank has an option to redeem all of the bonds at face value on the last day of the tenth year. If no early redemption is exercised, the interest rate will remain at 5.99% per annum.
- (3) The 3 year fixed-rate financial bonds were issued on May 11, 2015 by the Bank at a face value of RMB2.5 billion with a fixed coupon rate of 4.64% per annum, payable annually.
- (4) The 3 year fixed-rate financial bonds were issued on May 22, 2015 by the Bank at a face value of RMB2.5 billion with a fixed coupon rate of 4.27% per annum, payable annually.

- (5) The 10 year fixed-rate tier-two capital bonds were issued on August 21, 2015 by the Bank at a face value of RMB5.0 billion with a fixed coupon rate of 5% per annum, payable annually. The Bank has an option to redeem part or all of the bonds at face value on the last day of the fifth year if specified redemption conditions as stipulated in the offering documents were met, subject to regulatory approval. If no early redemption is exercised, the interest rate will remain at 5% per annum. The tier-two capital bonds have the write-down feature of a tier-two capital instrument, which allows the Bank to write down the entire principal of the bonds when regulatory triggering events as stipulated in the offering documents occur and any accumulated unpaid interest would become not payable. These tier-two capital bonds are qualified as tier-two capital instruments in accordance with the CBRC requirements.
- (6) The Bank issued a series of 1-month negotiable certificates of deposit (“CD”) during the year ended December 31, 2017. As at December 31, 2017, the face value of outstanding CD amounted to RMB6.39 billion (December 31, 2016: Nil), with a reference interest rate of 5.00%-5.72% per annum (December 31, 2016: Nil), payable at maturity.
- (7) The Bank issued a series of 3-month CD during the year ended December 31, 2017. As at December 31, 2017, the face value of outstanding CD amounted to RMB32.83 billion (December 31, 2016: RMB5.5 billion), with a reference interest rate of 4.55%-5.40% per annum (December 31, 2016: 2.90%-4.70% per annum), payable at maturity.
- (8) The Bank issued a series of 6-month CD during the year ended December 31, 2017. As at December 31, 2017, the face value of outstanding CD amounted to RMB32.39 billion (December 31, 2016: RMB10.9 billion), with a reference interest rate of 4.35%-5.25% per annum (December 31, 2016: 2.95%-3.48% per annum), payable at maturity.
- (9) The Bank issued a series of 9-month CD during the year ended December 31, 2017. As at December 31, 2017, the face value of outstanding CD amounted to RMB21.77 billion (December 31, 2016: 7.9 billion), with a reference interest rate of 4.50%-5.40% per annum (December 31, 2016: 3.00%-3.81% per annum), payable at maturity.
- (10) The Bank issued a series of 1-year CD during the year ended December 31, 2017. As at December 31, 2017, the face value of outstanding CD amounted to RMB13.96 billion (December 31, 2016: RMB3.7 billion), with a reference interest rate of 4.55%-5.30% per annum (December 31, 2016: 3.10%-3.22% per annum), payable at maturity.

7.14 Share Capital

	Year ended December 31	
	2017	2016
At beginning of the year	6,070,552	5,126,048
Issuance of shares	–	944,504
At end of the year	<u>6,070,552</u>	<u>6,070,552</u>

On 30 March, 2016, the Bank was listed on The Stock Exchange of Hong Kong Limited. A total of 944,504,091 H shares (including an over-allotment of 39,504,091 H shares listed on 21 April, 2016) were issued with par value of RMB1 per share at an offer price of HKD7.39 per share. Total gross proceeds from the share issuance amounted to RMB5,835.17 million, giving rise to a RMB4,890.67 million of share premium. The share premium (net of share issuance expenses) in the amount of RMB4,709.74 million was recorded in capital reserve. The issuance of H shares was verified by Deloitte Touche Tohmatsu Certified Public Accountants LLP with verification report De Shi Bao (Yan) Zi(16) No. 0535 issued on 27 May, 2016.

A summary of movements of the Bank's issued shares (in thousands of shares) during the year is as follows:

2017				
	As at January 1	Conversion/ Issuance	Transfer	As at December 31
Shareholders				
Domestic shareholders	4,305,953	–	–	4,305,953
H shareholders	1,764,599	–	–	1,764,599
Total	6,070,552	–	–	6,070,552
2016				
	As at January 1	Conversion/ Issuance	Transfer	As at December 31
Shareholders				
Domestic and foreign shareholders	5,126,048	(725,645)	(94,450)	4,305,953
H shareholders	–	1,670,149	94,450	1,764,599
Total	5,126,048	944,504	–	6,070,552

In accordance with the relevant PRC regulations regarding the transfer and disposal of state-owned shares, the state-owned shareholders are required to transfer 10% shares in cash to the National Council for Social Security Fund, in proportion to their respective holdings in the Bank, of a total amount equivalent to certain number of shares offered pursuant to the Bank's H share offering.

As at 31 December, 2016, all foreign shares had been converted into H shares.

7.15 Segment Analysis

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board of Directors and relevant management committees (chief operating decision maker) for the purposes of allocating resources to segments and assessing their performance. The Group's chief operating decision maker reviews consolidated financial statements mainly based on operating segments for the purpose of allocating resources and performance assessment.

Measurement of segment assets and liabilities and segment income and result is based on the Group's accounting policies. Segment information is prepared in conformity with the accounting policies adopted for preparing and presenting the consolidated financial statements.

Internal charges and transfer pricing are determined with reference to market rates and have been reflected in the performance of each segment. Interest income and expense arising from internal charges and transfer pricing adjustments are referred to as "inter-segment interest income/expense". Interest income and expense earned from/incurred with third parties are referred to as "external interest income/expense".

The Group has no major customer which contributes to 10 per cent or more of the Group's income. No geographical information is presented as most of the Group's operations are conducted and majority of its non-current assets are located and therefore revenue is derived from activities in Tianjin Municipality of the PRC.

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

Operating Segments

The Group provides a diversified range of banking and related financial services. The products and services offered to customers are organized into the following operating segments:

Corporate banking

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit takings and other types of corporate intermediary services.

Personal banking

The personal banking segment provides financial products and services to individual customers. The products and services include personal loans, deposit products, card business, personal wealth management services and other types of personal intermediary services.

Treasury operations

The Group's treasury operations conduct money market or repurchase transactions, and debt instruments investment for its own accounts or on behalf of customers.

Others

Others include head office operations as well as items that are not attributed to the above segments.

	Corporate banking	Personal banking	Treasury operations	Others	Total
Year ended December 31, 2017					
External interest income	9,348,550	1,498,077	17,048,108	–	27,894,735
External interest expense	(7,073,313)	(1,671,516)	(10,748,694)	–	(19,493,523)
Inter-segment interest income/(expense)	<u>3,659,737</u>	<u>1,565,333</u>	<u>(5,225,070)</u>	<u>–</u>	<u>–</u>
Net interest income	5,934,974	1,391,894	1,074,344	–	8,401,212
Fee and commission income	1,534,002	378,668	200,169	–	2,112,839
Fee and commission expense	<u>(65,394)</u>	<u>(13,976)</u>	<u>(4)</u>	<u>–</u>	<u>(79,374)</u>
Net fee and commission income	1,468,608	364,692	200,165	–	2,033,465
Net trading losses	–	–	(172,619)	–	(172,619)
Net gains arising from investment securities	–	–	15,601	–	15,601
Other income, gains or losses	<u>(60,000)</u>	<u>–</u>	<u>(81,271)</u>	<u>6,928</u>	<u>(134,343)</u>
Operating income	7,343,582	1,756,586	1,036,220	6,928	10,143,316
Operating expenses	(1,825,469)	(976,571)	(300,553)	–	(3,102,593)
Impairment losses	(1,798,570)	(225,033)	(108,250)	–	(2,131,853)
Share of results of associates	<u>–</u>	<u>–</u>	<u>–</u>	<u>(25,932)</u>	<u>(25,932)</u>
Profit/(losses) before tax	3,719,543	554,982	627,417	(19,004)	4,882,938
Income tax expense					<u>(939,874)</u>
Profit for the year					<u><u>3,943,064</u></u>
Depreciation and amortization	(163,175)	(38,484)	(22,839)	–	(224,498)
Capital expenditure	<u>(117,290)</u>	<u>(67,683)</u>	<u>(9,136)</u>	<u>(24,645)</u>	<u>(218,754)</u>
As at December 31, 2017					
Segment assets	212,058,853	34,607,292	454,701,284	546,160	701,913,589
Segment liabilities	(306,411,501)	(71,087,087)	(278,975,443)	(683,696)	(657,157,727)
Supplementary information					
Credit commitments	<u>43,850,850</u>	<u>1,799,981</u>	<u>–</u>	<u>–</u>	<u>45,650,831</u>

	Corporate banking	Personal banking	Treasury operations	Others	Total
Year ended December 31, 2016					
External interest income	8,690,373	1,296,992	15,215,211	–	25,202,576
External interest expense	(7,378,493)	(1,738,815)	(5,726,043)	–	(14,843,351)
Inter-segment interest income/ (expense)	<u>3,944,797</u>	<u>2,110,246</u>	<u>(6,055,043)</u>	<u>–</u>	<u>–</u>
Net interest income	5,256,677	1,668,423	3,434,125	–	10,359,225
Fee and commission income	970,008	365,422	107,043	–	1,442,473
Fee and commission expense	<u>(34,870)</u>	<u>(5,543)</u>	<u>(8)</u>	<u>–</u>	<u>(40,421)</u>
Net fee and commission income	935,138	359,879	107,035	–	1,402,052
Net trading losses	–	–	(120,090)	–	(120,090)
Net gains arising from investment securities	–	–	63,342	–	63,342
Other income, gains or losses	<u>(77,689)</u>	<u>486</u>	<u>177,221</u>	<u>10,189</u>	<u>110,207</u>
Operating income	6,114,126	2,028,788	3,661,633	10,189	11,814,736
Operating expenses	(1,555,649)	(1,237,977)	(974,016)	–	(3,767,642)
Impairment losses	(1,762,365)	(181,576)	(409,023)	–	(2,352,964)
Share of results of associates	<u>–</u>	<u>–</u>	<u>–</u>	<u>16,244</u>	<u>16,244</u>
Profit before tax	2,796,112	609,235	2,278,594	26,433	5,710,374
Income tax expense					<u>(1,192,470)</u>
Profit for the year					<u><u>4,517,904</u></u>
Depreciation and amortization	(76,218)	(87,659)	(35,802)	–	(199,679)
Capital expenditure	<u>(145,125)</u>	<u>(130,612)</u>	<u>(14,512)</u>	<u>–</u>	<u>(290,249)</u>
As at December 31, 2016					
Segment assets	183,690,046	28,109,229	444,248,257	1,262,575	657,310,107
Segment liabilities	(307,909,472)	(68,449,313)	(238,584,912)	(611,630)	(615,555,327)
Supplementary information					
Credit commitments	<u>64,635,323</u>	<u>1,625,223</u>	<u>–</u>	<u>–</u>	<u>66,260,546</u>

7.16 Structured Entities

7.16.1 Consolidated structured entities

The consolidated structured entities of the Group mainly include principal-guaranteed wealth management products sponsored by the Bank. As at December 31, 2017, the amount of assets held by the consolidated principal-guaranteed wealth management products sponsored by the Bank amounted to RMB23,949 million (December 31, 2016: RMB19,661 million).

For the year ended December 31, 2017, the management fee relating to these products recognized by the Group amounted to RMB214 million (2016: RMB190 million).

7.16.2 Unconsolidated structured entities

(1) Structured entities sponsored by third party institutions in which the Bank holds an interest

The Bank holds an interest in these structured entities sponsored by third party institutions through investments in the rights or plans issued relating to these structured entities. The Bank does not consolidate these structured entities. Such structured entities include wealth management products issued by financial institutions, asset management plans, trust beneficiary rights and asset-backed securities.

The following table set out an analysis of the gross carrying amounts of interests held by the Group as at December 31, 2017 in the structured entities sponsored by third party institutions.

	As at December 31	
	2017	2016
Asset-backed securities	19,850,680	13,251,091
Wealth management products	67,924,624	64,717,076
Asset management plans	81,347,831	85,903,106
Trust beneficiary rights	84,937,452	35,246,849
Total	<u>254,060,587</u>	<u>199,118,122</u>

All of these unconsolidated structured entities are recorded in investments classified as receivables. The maximum exposures to loss in the above investment products are the amortized cost of the assets held by the Group at the end of the year.

(2) *Unconsolidated structured entities sponsored by the Bank in which the Bank holds an interest*

The types of unconsolidated structured entities sponsored by the Bank mainly include non-principal-guaranteed wealth management products. The purpose of sponsoring these structured entities is to generate fees from managing assets on behalf of investors. Interest held by the Bank includes fees charged by providing management services to these structured entities.

For the year ended December 31, 2017, the management fee relating to these products recognized by the Group amounted to RMB1,015 million (2016: RMB671 million).

As at December 31, 2017, the amount of assets held by the unconsolidated non-principal-guaranteed wealth management products sponsored by the Bank amounted to RMB96,084 million (December 31, 2016: RMB76,207 million).

In addition, unconsolidated structured entities sponsored by the Bank also include asset-backed securities.

The Group did not provide any financial or other support to these unconsolidated structured entities during the year (2016: None).

7.17 Related Party Transactions

(1) *Balances and transactions between the Group and the major shareholders and entities under their control*

Following major shareholders held more than 5% interest of the Bank and are considered as related parties of the Group:

	Percentage of shares held as at December 31	
	2017	2016
Tianjin Bonded Zone Investment Co., Ltd.	15.92%	15.88%
Australia and New Zealand Banking Group Limited ("ANZ")	11.95%	11.95%
Tianjin Pharmaceutical Holdings Ltd. and its subsidiaries	8.06%	8.06%
Tianjin Bohai Chemical Industry Group Co., Ltd. and its subsidiaries	8.04%	8.04%

During the year, the Group had the following material balances and entered into the following material transactions with major shareholders and entities under their control. These transactions were entered into in the normal course of business, with pricing policies consistent with those transactions conducted with independent third parties.

	As at December 31	
	2017	2016
Balances at the end of the year:		
Assets		
Deposits with banks and other financial institutions	4,704	3,594
Loans and advances to customers	2,600,000	—
Interest receivable from related parties	3,621	—
Total	2,608,525	3,594
Liabilities		
Due to customers	914,651	118,092
Interest payable to related parties	213	—
Total	914,864	118,092
	Year ended December 31	
	2017	2016
Transactions during the year:		
Interest income	123,537	1,753
Interest expense	3,634	9,636
Interest rate ranges during the year:	%	%
Deposits with banks and other financial institutions	—	—
Placements with banks and other financial institutions	—	0.50~1.80
Loans and advances to customers	4.35~5.50	—
Placements from banks	—	2.77~3.10
Due to customers	0.05~1.32	0.35~1.38

(2) Subsidiaries of the Bank

As at December 31, 2017, the Bank's deposits from its subsidiaries amounted to RMB1,673.99 million (December 31, 2016: RMB780.03 million) and the interest expenses for the year ended December 31, 2017 amounted to RMB22.55 million (2016: RMB3.27 million).

(3) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors and senior management and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the Board of Directors and senior management, and close family members of such individuals. Transactions with other related parties were entered into in the normal course of business, with pricing policies consistent with those transactions conducted with independent third parties.

Balances and transactions with other related parties

	As at December 31	
	2017	2016
Balances at the end of the year:		
Liabilities		
Deposits from banks and other financial institutions	591,393	168,805
Due to customers	50,000	—
Interest payable to related parties	1,112	—
Total	642,505	168,805
	Year ended December 31	
	2017	2016
Transactions during the year:		
Interest expense	1,884	1,958
Interest rate range during the year:	%	%
Deposits from banks and other financial institutions	0.35~5.30	0.35~3.00
Due to customers	—	0.35~1.38

(4) Key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	Year ended December 31	
	2017	2016
Fees	1,755	1,804
Basic salaries, bonuses and allowances*	4,396	6,829
Contribution to pension schemes	1,435	1,635
Total	7,586	10,268

* Bonus for 2017 can only be determined after the shareholders' general meeting and regulatory approval.

(5) Annuity Scheme

The Group has the following transactions with the annuity scheme set up by the Bank.

	Year ended December 31	
	2017	2016
Contribution to annuity funds	121,723	83,005

7.18 Contingent Liabilities and Commitments

Legal proceedings

The Bank and its subsidiaries, as defendants, are involved in certain lawsuits arising from its normal business operations. As at December 31, 2017, the Group has assessed and measured the impact of those significant pending lawsuits and recognized reasonable amount of provisions.

Capital commitments

	As at December 31	
	2017	2016
Contracted but not provided for — commitments for the acquisition of property and equipment	156,338	217,252

Operating lease commitments

At the end of the year, the Group had the following non-cancellable operating lease commitments as lessee with fixed lease term and lease payment:

	As at December 31	
	2017	2016
Within 1 year	297,903	373,427
1 to 2 years	253,458	193,248
2 to 3 years	206,895	193,070
3 to 4 years	162,413	125,874
4 to 5 years	133,082	86,542
Over 5 years	318,895	195,798
Total	<u>1,372,646</u>	<u>1,167,959</u>

Credit commitments

	As at December 31	
	2017	2016
Acceptances	29,021,385	48,612,349
Undrawn credit card limit	1,799,981	1,625,223
Letters of credit issued	8,557,033	8,329,551
Letters of guarantee	6,272,432	7,693,423
Total	<u>45,650,831</u>	<u>66,260,546</u>

Credit commitments represent general facility limits granted to customers. These credit facilities may be drawn in the form of loans and advances or through the issuance of letters of credit, acceptances or letters of guarantee.

The Group grants loan commitments to specific customers. Directors of the Bank are of the opinion that such commitments are conditional and revocable.

Credit risk weighted amounts for credit commitments

	As at December 31	
	2017	2016
Credit commitments	19,367,185	27,509,516

The credit risk weighted amounts are the amounts calculated in accordance with the guidelines issued by the CBRC and are dependent on, among other factors, the creditworthiness of the counterparty and the maturity characteristics. The risk weightings used range from 0% to 100%, for contingent liabilities and commitments.

Collateral

Assets pledged

The total carrying amount of assets pledged as collateral under repurchase agreement and customer deposits for the Group is as follows:

	As at December 31	
	2017	2016
Bonds	68,319,201	66,280,478
Total	68,319,201	66,280,478

As at December 31, 2017, the carrying amount of financial assets sold under repurchase agreements for the Group amounted to RMB50,696 million (December 31, 2016: RMB58,806 million). All repurchase agreements were due within twelve months from inception.

As at December 31, 2017, the balances of customer deposits that were secured by the Group's assets amounted to RMB9,673 million (December 31, 2016: RMB7,014 million), of which RMB2,000 million (December 31, 2016: RMB2,000 million) were due over twelve months from inception.

As at December 31, 2017, the balances of Medium-term Lending Facility that were secured by the Group's assets amounted to RMB7,500 million (December 31, 2016: nil).

Collateral accepted

As at December 31, 2017, the Group received RMB9,594 million (December 31, 2016: RMB34,540 million) of bonds and bills as collateral relating to financial assets held under resale agreements. As at December 31, 2017 and 2016, none of these collateral could be resold or repledged by the Group.

Redemption commitments of government bond

The Group is authorized by the Ministry of Finance to underwrite certificate government bonds and e-saving bonds. The investors of these bonds can redeem before maturity date and the Group has the obligation to pay the principal and related interests to investors.

As at December 31, 2017, the principal balance of certificate government bonds which the Group had the obligation to pay in advance amounted to RMB2,144 million (December 31, 2016: RMB2,150 million), and the principal balance of e-saving bonds which the Group has early payment obligations amounted to RMB2,371 million (December 31, 2016: RMB2,331 million). The original term of these bonds is from 1 to 5 years.

The Ministry of Finance does not pay the principal and interest of certificate government bonds until the maturity date and pays the principal and interest of the e-saving bonds periodically upon the Group's demand.

7.19 Particulars of Principal Subsidiaries

Details of the Bank's subsidiaries as at December 31, 2017 are set out below:

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Registered capital as at December 31, 2017	Proportion of ownership held by the Group		Proportion of voting rights held by the Group		Principal activities
			(In RMB '000)	As at December 31, 2017	As at December 31, 2016	As at December 31, 2017	As at December 31, 2016	
				%	%	%	%	
Ningxia Yuanzhou Jinhui County Bank Co., Ltd (寧夏原州津匯村鎮銀行有限責任公司)	Ningxia, PRC	July 2016	50,000	51	51	51	51	Banking
Ningxia Tongxin Jinhui County Bank Co., Ltd (寧夏同心津匯村鎮銀行有限責任公司)	Ningxia, PRC	August 2016	50,000	51	51	51	51	Banking
Bank of Tianjin Financial Leasing Co., Ltd (天銀金融租賃股份有限公司)	Tianjin, PRC	October 2016	1,700,000	65.88	100	65.88	100	Financial Leasing

8. PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement was published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Bank (www.bankoftianjin.com). The 2017 annual report prepared in accordance with the IFRSs will be published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the website of the Bank (www.bankoftianjin.com), and will be despatched to the holders of H shares of the Bank in due course.

This annual results announcement is prepared in both English and Chinese versions, in the event of any discrepancies in interpretation between the English version and Chinese version, the Chinese version shall prevail.

By Order of the Board
Bank of Tianjin Co., Ltd.
LI Zongtang
Chairman

Tianjin, China
March 23, 2018

As of the date of this announcement, the Board of Directors of the Bank comprises Mr. LI Zongtang, Mr. SUN Liguang and Ms. ZHANG Furong, as executive directors; Mr. ZHAO Jiawang, Mr. YU Yang, Mr. Alistair Marshall Bulloch, Mr. ZHAO Wei, Mr. LUAN Fengxiang and Mr. ZENG Xiangxin, as non-executive directors; Mr. LIU Baorui, Mr. FENG Heping, Mr. GUO Tianyong, Mr. LAW Yee Kwan, Quinn and Mr. Jin Qingjun, as independent non-executive directors.

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