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China Cinda Asset Management Co., Ltd.

中國信達資產管理股份有限公司

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

(Stock Code: 01359 and 04607 (Preference Shares))

2017 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the “**Board**”) of China Cinda Asset Management Co., Ltd. (the “**Company**”) is pleased to announce the audited results of the Company and the subsidiaries for the year ended December 31, 2017. This announcement, containing the full text of the 2017 Annual Report of the Company, complies with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to preliminary announcements of annual results. The printed version of the Company’s 2017 Annual Report will be delivered to the shareholders of the H shares of the Company and available for viewing on the websites of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and of the Company at www.cinda.com.cn in late April 2018.

By order of the Board

China Cinda Asset Management Co., Ltd.

HOU Jianhang

Chairman

Beijing, the PRC

27 March 2018

As at the date of this announcement, the Board of the Company consists of Mr. HOU Jianhang and Mr. CHEN Xiaozhou as Executive Directors, Mr. LI Honghui, Mr. SONG Lizhong, Ms. XIAO Yuping, Ms. YUAN Hong, Mr. ZHANG Guoqing and Mr. LIU Chong as Non-executive Directors, and Mr. CHANG Tso Tung, Stephen, Mr. XU Dingbo, Mr. ZHU Wuxiang and Mr. SUN Baowen as Independent Non-executive Directors.

COMPANY PROFILE

China Cinda Asset Management Corporation, the predecessor of the Company, was the first asset management company established in April 1999 pursuant to approval of the State Council to tackle financial risk and maintain the stability of the financial system as well as to facilitate the reform of stateowned banks and enterprises. In June 2010, China Cinda Asset Management Corporation was reorganized to establish China Cinda Asset Management Co., Ltd. In April 2012, the Company received investments from four strategic investors, namely the National Council for Social Security Fund of the PRC, UBS AG, CITIC Capital Holdings Limited and Standard Chartered Bank. On December 12, 2013, the Company was successfully listed on the main board of the Hong Kong Stock Exchange and became the first financial asset management company in China to be listed on the international capital market.

Our principal business segments include distressed asset management, financial investment and asset management, as well as financial services. Distressed asset management is the core business of the Company. The Company has 33 branches (including Hefei Operation Support Center) in 30 provinces, autonomous regions and municipalities in mainland China and several subsidiaries as platforms for providing distressed asset management, asset management and financial services in mainland China and Hong Kong mainly, including Nanyang Commercial Bank, Limited, Cinda Securities Co., Ltd., China Jingu International Trust Co.,Ltd., Cinda Financial Leasing Co., Ltd., Happy Life Insurance Co., Ltd., Cinda Investment Co., Ltd, China Cinda (HK) Holdings Company Limited and Zhongrun Economic Development Co., Ltd. The Group has approximately 18,000 employees.

In 2017, the Company was once again awarded the “2017 China Financial Intuition Gold Medal List-Best Asset Management Company of the Year” by Financial Times, the “2017 China Financing Grand Prize – Best Listed Company Award” by China Financing Market and the 17th China Top 100 Summit Forum “China Top 100 Enterprises Award”. The Company was also awarded the “Listed Company with the Best Investment Value” and the “Listed Company with the Best Investor Relations Management” of the “7th China Securities Golden Bauhinia Awards” jointly presented by organizations such as Hong Kong Ta Kung Wen Wei Media Group and the “2016 Quam Investor Relations Awards (Main Board Category)” by Quam (H.K.) Ltd.

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DEFINITIONS

In this report, unless the context otherwise requires, the following expressions have the following meanings:

“(our) Company”	China Cinda Asset Management Co., Ltd.
“(our) Group”	China Cinda Asset Management Co., Ltd. and its subsidiaries
“AMC(s)”	the four financial asset management companies approved by the State Council, including our Company, China Huarong Asset Management Co., Ltd., China Great Wall Asset Management Co., Ltd. and China Orient Asset Management Co., Ltd.
“Articles”	the current Articles of Association of China Cinda Asset Management Co., Ltd.
“Board”	the board of directors of the Company
“Board of Supervisors”	the board of supervisors of the Company
“BOC”	Bank of China Limited, a company listed on the Hong Kong Stock Exchange (stock code: 03988) and Shanghai Stock Exchange (stock code: 601988)
“CBRC”	China Banking Regulatory Commission
“CCB”	China Construction Bank Corporation, a company listed on the Hong Kong Stock Exchange (stock code: 00939) and Shanghai Stock Exchange (stock code: 601939)
“China” or “the PRC”	the People’s Republic of China excluding, for the purpose of this report, Hong Kong, Macao and Taiwan region
“Cinda Capital”	Cinda Capital Management Co., Ltd., a subsidiary of the Company
“Cinda Futures”	Cinda Futures Co., Ltd., a subsidiary of the Company
“Cinda Hong Kong”	China Cinda (HK) Holdings Company Limited, a subsidiary of the Company

“Cinda International”	Cinda International Holdings Limited, a subsidiary of the Company and is listed on the Hong Kong Stock Exchange (stock code: 00111)
“Cinda Investment”	Cinda Investment Co., Ltd., a subsidiary of the Company
“Cinda Leasing”	Cinda Financial Leasing Co., Ltd., a subsidiary of the Company
“Cinda P&C”	Cinda Property and Casualty Insurance Co., Ltd. (which has changed its name to Guoren Property and Casualty Insurance Co., Ltd.), originally a subsidiary of the Company, as approved by the 2016 second extraordinary general meeting of the Company and China Insurance Regulatory Commission, the Company has completed to transfer 1.23 billion shares held in Cinda P&C and the Company currently still holds 10% of its equity interests.
“Cinda Real Estate”	Cinda Real Estate Co., Ltd., a subsidiary of the Company and is listed on the Shanghai Stock Exchange (stock code: 600657)
“Cinda Securities”	Cinda Securities Co., Ltd., a subsidiary of the Company
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	ordinary share(s) with nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for or credited as fully paid in Renminbi
“First State Cinda Fund”	First State Cinda Fund Management Co., Ltd., a subsidiary of the Company
“H Share(s)”	ordinary share(s) in the share capital of our Company with nominal value of RMB1.00 each, which is (are) listed on the Hong Kong Stock Exchange
“Happy Life”	Happy Life Insurance Co., Ltd., a subsidiary of the Company

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IFRS”	International Financial Reporting Standards, as issued by the International Accounting Standards Board
“Jingu Trust”	China Jingu International Trust Co., Ltd., a subsidiary of the Company
“Latest Practicable Date”	March 20, 2018, being the latest practicable date for the purpose of ascertaining certain information contained in this report prior to its publication
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Macao”	the Macao Special Administrative Region of the PRC
“MOF”	the Ministry of Finance of the PRC
“NCB China”	Nanyang Commercial Bank (China) Limited, a company incorporated in the PRC and a wholly owned subsidiary of NCB Hong Kong
“NCB Hong Kong”	Nanyang Commercial Bank, Limited, a company incorporated in Hong Kong and a licensed bank in Hong Kong, a subsidiary of the Company
“NCB” or “Nanyang Commercial Bank”	NCB Hong Kong and its subsidiaries
“NSSF”	National Council for Social Security Fund of the PRC
“Offshore Preference Share(s)”	160,000,000 non-cumulative perpetual offshore preference shares with a par value of RMB100 per share non-publicly issued by the Company in the offshore market on September 30, 2016, which are listed and traded on Hong Kong Stock Exchange (stock code: 04607)
“PBOC”	the People’s Bank of China

“PRC GAAP”	Accounting Standards for Business Enterprises and the Application Guidance thereof promulgated by MOF, as well as other relevant regulations
“Reporting Period”	the year ended December 31, 2017
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Share(s)”	ordinary share(s) in the share capital of our Company with nominal value of RMB1.00 each, including Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“SSE”	Shanghai Stock Exchange
“State Council”	the State Council of the People’s Republic of China
“subsidiary(ies)”	has the meanings ascribed to it under the Listing Rules
“Supervisor(s)”	supervisor(s) of the Company
“SZSE”	Shenzhen Stock Exchange
“Zhongrun Development”	Zhongrun Economic Development Co., Ltd., a subsidiary of the Company

IMPORTANT NOTICE

The Board, Board of Supervisors and Directors, Supervisors and senior management of China Cinda Asset Management Co., Ltd. undertake that information in this annual report is true, accurate and complete and does not contain any false representations, misleading statements or material omissions, and jointly and severally take responsibility for its contents.

On March 27, 2018, the third meeting and the second regular meeting of 2018 of the Board considered and approved the 2017 Annual Report (2017 Annual Results Announcement) of the Company. There were 12 Directors eligible to attend the meeting, of whom 12 attended in person.

The financial reports for 2017 prepared by the Company according to the PRC GAAP and IFRS, respectively, were audited by Ernst & Young Hua Ming LLP and Ernst & Young in accordance with the Chinese and International Standards on Auditing, respectively, and they have issued the standard and unqualified audit reports for the Company.

The Board proposed to distribute a cash dividend of RMB1.42 per 10 Shares (tax inclusive) for 2017 to Shareholders, which is subject to the approval at the annual general meeting for 2017.

Board of Directors of China Cinda Asset Management Co., Ltd.
March 27, 2018

The legal representative of the Company, Mr. HOU Jianhang, Assistant to the President in charge of finance, Mr. LIANG Qiang, and the General Manager of the Finance and Accounting Department of the Company, Mr. YANG Yingxun, undertake that the financial statements in this report are true, accurate and complete.

This report may contain forward-looking statements relating to risks and future plans. These forward-looking statements are based on information presently available to us and from other sources which we consider reliable. The forward-looking statements relating to the future events or the financial, business or other performance of the Company in the future are subject to uncertainties which could cause the actual results to differ materially. Investors are advised not to place undue reliance on these forward-looking statements. Future plans involved in these forward-looking statements do not represent any guarantee made by the Company to the investors. Investors are advised to exercise caution when making investment.

For details of the major risks faced and the relevant measures taken by the Company, please see “Management Discussion and Analysis – Risk Management” in this report.

1 CORPORATE INFORMATION

Official Chinese name	中國信達資產管理股份有限公司
Chinese abbreviation	中國信達
Official English name	China Cinda Asset Management Co., Ltd.
English abbreviation	China Cinda
Legal representative	HOU Jianhang
Authorized representatives	HOU Jianhang, AI Jiuchao
Board Secretary	AI Jiuchao
Joint company secretaries	AI Jiuchao, Ngai Wai Fung
Registered address	No. 1 Building, 9 Naoshikou Street, Xicheng District, Beijing, the PRC
Postal code of place of registration	100031
Website	www.cinda.com.cn
Principal place of business in Hong Kong	12/F, AIA Central, 1 Connaught Road Central, Central, Hong Kong

Website of Hong Kong Stock Exchange for publishing annual reports	www.hkexnews.hk
Place for maintaining annual reports available for inspection	Board of Directors' Office of the Company
Place of listing of H Shares	The Stock Exchange of Hong Kong Limited
Stock Short Name	China Cinda
Stock Code	01359
Place of listing of Offshore Preference Shares	The Stock Exchange of Hong Kong Limited
Stock Short Name	CINDA 16USDPREF
Stock Code	04607
Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Social Credit Code	91110000710924945A
Registration number of Financial License	J0004H111000001
Legal advisors as to PRC Law	Haiwen & Partners Fangda Partner Zhong Lun Law Firm
Legal advisors as to Hong Kong law	Herbert Smith Freehills LLP Hogan Lovells
International accounting firm	Ernst & Young
Domestic accounting firm	Ernst & Young Hua Ming LLP

2 FINANCIAL SUMMARY

The financial information contained in this report was prepared in accordance with IFRS. Unless otherwise specified, the financial information herein is the consolidated data of the Group and denominated in RMB.

	As at and for the year ended December 31,				
	2017	2016	2015	2014	2013
	(in millions of RMB)				
Income from distressed debt assets classified as receivables	17,773.0	15,539.2	18,883.9	18,113.6	10,144.2
Fair value changes on distressed debt assets	8,266.4	5,716.2	4,420.1	4,077.5	4,617.6
Fair value changes on other financial assets	2,582.2	2,656.3	1,971.2	2,180.5	539.0
Investment income	29,465.7	17,991.3	13,552.2	9,116.5	7,043.8
Net insurance premiums earned	19,266.9	16,635.8	12,912.2	7,443.0	5,771.9
Interest income	20,640.8	14,506.5	13,516.5	8,810.5	5,059.2
Revenue from sales of inventories	14,425.5	10,954.6	7,637.0	4,340.5	4,321.9
Other income and other net gains or losses	7,614.0	7,657.3	5,851.0	5,708.0	4,915.5
Total income	120,034.6	91,657.2	78,744.1	59,790.1	42,413.2
Impairment losses on assets	(11,404.7)	(4,813.7)	(4,376.5)	(5,438.1)	(6,153.3)
Interest expense	(35,911.1)	(23,223.8)	(20,185.3)	(15,961.1)	(7,803.8)
Insurance costs	(20,913.7)	(17,549.0)	(13,766.9)	(6,865.3)	(5,018.8)
Purchases and changes in inventories	(10,355.8)	(8,455.8)	(5,587.1)	(2,824.0)	(2,720.3)
Other costs and expenses	(15,651.5)	(14,315.4)	(13,285.6)	(10,945.1)	(8,904.8)
Total costs and expenses	(94,236.7)	(68,357.7)	(57,201.4)	(42,033.6)	(30,600.9)
Change in net assets attributable to other holders of consolidated structured entities	(1,284.7)	(2,331.7)	(2,557.0)	(1,909.9)	(540.5)
Share results of associates and joint ventures	1,617.7	797.7	312.2	460.2	500.3
Profit before tax	26,130.8	21,765.5	19,297.9	16,306.7	11,772.1
Income tax expense	(7,373.0)	(5,783.5)	(4,594.0)	(4,164.0)	(2,671.0)
Net profit for the year	18,757.8	15,982.0	14,703.9	12,142.7	9,101.0
Profit attributable to:					
Equity holders of the Company	18,122.4	15,512.2	14,027.5	11,896.2	9,027.3
Non-controlling interests	635.4	469.8	676.4	246.5	73.7
Assets					
Cash and balances with central banks	21,511.1	17,368.0	46.8	3.3	3.4
Deposits with banks and financial institutions	54,429.2	75,801.3	64,590.9	49,033.1	58,763.6
Financial assets at fair value through profit or loss	213,795.9	149,045.5	117,287.4	57,220.5	25,178.5
Available-for-sale financial assets	273,182.7	212,495.9	120,604.3	85,794.6	72,747.2
Financial assets classified as receivables	234,226.9	198,787.2	181,058.3	180,913.1	116,662.7
Loans and advances to customers	312,117.5	294,936.6	104,738.5	80,224.7	48,636.4
Other assets	277,674.2	226,046.4	125,648.5	91,238.1	61,793.6
Total assets	1,386,937.5	1,174,480.9	713,974.7	544,427.4	383,785.4

As at and for the year ended December 31,

	2017	2016	2015	2014	2013

(in millions of RMB)

Liabilities

Borrowings from central bank	986.1	986.1	986.1	986.1	4,913.0
Due to customers	226,220.8	204,629.0	–	–	–
Accounts payable to brokerage clients	12,393.8	16,272.1	21,533.2	11,663.3	6,480.8
Borrowings	580,352.1	450,514.8	317,070.7	263,452.4	173,834.7
Accounts payable	3,220.9	3,053.9	4,970.8	13,891.2	22,814.1
Bonds issued	206,482.6	152,497.6	111,773.4	43,694.9	13,285.0
Other liabilities	189,016.6	198,557.4	146,746.5	108,876.3	79,695.7
Total liabilities	1,218,672.9	1,026,510.9	603,080.7	442,564.1	301,023.3

Equity

Equity attributable to equity holders of the Company	149,394.5	139,216.7	101,710.2	93,368.9	75,998.3
Non-controlling interests	18,870.2	8,753.3	9,183.7	8,494.4	6,763.8
Total equity	168,264.7	147,970.0	110,893.9	101,863.3	82,762.1
Total equity and liabilities	1,386,937.5	1,174,480.9	713,974.7	544,427.4	383,785.4

Financial indicators

Return on average shareholders' equity ⁽¹⁾ (%)	13.88	14.12	14.4	14.0	13.8
Return on average assets ⁽²⁾ (%)	1.46	1.69	2.34	2.62	2.85
Cost-to-income ratio ⁽³⁾ (%)	24.89	27.0	23.9	24.0	26.2
Earnings per share ⁽⁴⁾ (RMB)	0.45	0.43	0.39	0.33	0.30
Net assets per share ⁽⁵⁾ (RMB)	3.36	3.09	2.81	2.58	2.50

Notes:

- (1) Represents the percentage of net profit attributable to the ordinary shareholders for the period in the average balance of equity attributable to the ordinary shareholders of the Company as at the beginning and the end of the period.
- (2) Represents the percentage of net profit for the period (including profit attributable to non-controlling interests) in the average balance of total assets as at the beginning and the end of the period.
- (3) Represents the ratio of the sum of employee benefits, depreciation and amortization and other expenses to total income net of insurance costs, commission and fee expense, purchases and changes in inventories and interest expense.
- (4) Represents the net profit attributable to ordinary shareholders of the Company during the period divided by the weighted average number of ordinary shares.
- (5) Represents the net assets attributable to shareholders of the Company at the end of the period after deducting preferred shares divided by the number of shares as at the end of the period.

3 CHAIRMAN'S STATEMENT

During the past year, both domestic and overseas economic environments underwent profound and complicated changes. While the global economy regained growth momentum with improvement seen in the global investment environment, a growing trend of deglobalization and trade and investment protectionism, continuously rising debt level, fast-piling up of asset bubbles and frequent geopolitical risks posed additional risks and uncertainties to the prospect of global economy. Despite a continually steady and improved performance in China's economy, issues such as unbalanced and insufficient development, low development quality and financial risks remained prominent. Facing complicated and changing domestic and overseas economic environments and an increasingly stringent financial regulatory environment, the Company adhered to focusing on its core business and refining its professions. While preserving a strong base for the core business, we moved forward through optimization in business structure, treated enhancement of risk prevention as the cornerstones of development, and served the real economy through neutralization of financial risks, seized the opportunity of development, laid the solid foundations for development, and moved forward against difficulties. The development of the Company reached a new stage and the Company maintained a steady growth of the assets scale and net profits, which led to continuous improvements in the development quality and operation efficiency. As of the end of 2017, total assets of the Company reached RMB1,386.94 billion, representing a year-on-year increase of 18.1%. Net profit attributable to equity holders of the Company for the year reached RMB18.12 billion, representing a year-on-year increase of 16.8%, with return on average shareholders' equity of 13.88%.

We embraced the new era, implemented the new concept and effectively improved the quality of serving the real economy. The Company is committed to serving the real economy, and continued to improving the relevance and effectiveness of financial services by addressing the needs of the real economy. Taking the advantages of our core business line of distressed asset management, the Company actively explore the business opportunities by cutting overcapacity, reducing excess inventory, deleveraging, lowering costs and strengthening areas of weakness. In respect of distressed assets and enterprises, the Company mitigated risks through means such as disposal of inefficient assets, debt restructuring, market-oriented debt-to-equity swap, which improved the value of existing assets and deleveraged state-owned enterprises to better prevent and dissolve risks in key areas. The Company also actively proceeded with the regional coordinated development strategy with focus on key areas, key industries and key enterprises, and took an active role in mixed ownership reform of state-owned enterprises and fostering transformation in growth drivers, as well as supported the transformation and upgrade of enterprises. We facilitated the implementation of supply-side structural reform, so as to improve the internal virtuous cycle among the financial industry, the real economy and the financial system.

We held on to our strategic focus, maintained strong confidence in our path, and keep on strengthening and optimizing our core business in distressed asset management. Under the complicated and changing economic environment, new features emerged in the distressed asset management market. Facing a new economic and business environment, the Company stands firm on its missions in financial risk prevention and mitigation, focused firmly on its core businesses while actively exploring new opportunities from the core business for further developments. The Company sought to improve the level of the distressed asset management, so as to optimize the all-round improvement of acquisition, management and disposal of distressed assets. In addition to maintaining its leading edge in the distressed asset business market, the Company fully leveraged the synergy of the Group to fully exploit asset values, and enhanced efficiency in financial risk mitigation. Concerning distressed assets and enterprises, the Company leveraged merger and restructuring to utilize various types of financial means to assist the enterprises in revitalizing their assets and making a turnaround in profitability, thereby building up a micro base for high quality economic development. With years of experience in debt-to-equity swap assets management, the Company took an active part in a new round of debt-to-equity swap initiatives to explore new models and new measures, hastening upgrade in state-owned enterprises reform and industry upgrade by integrating the revitalization of existing assets with the optimization of incremental assets, and by implementing a series of high quality debt-to-equity swap projects.

We enhanced risk prevention and deepened the transformation of management to build a solid base for high quality development of the Company. The in-depth implementation of a comprehensive risk management system, combined with strategic planning and environmental resources, the system determines a fair risk appetite, which helps guide the Group's operation management. Building on the basis of economic capital management, the Company worked to foster optimization of resource allocation and promote distinctiveness and unique characteristics among different operating units so that it can establish a strong base for the Group's further coordinated development. The Company actively proceeded the classified comprehensive management of its branches and increased their operating capacity. Having accelerated the strategic integration of subsidiaries, the Company successively completed a series of the platform optimization and consolidation projects which included transferring the equities of Cinda P&C, injecting capital into Happy Life, replenishing the capital of NCB and launched the integration of the domestic and overseas and introduction of strategic investors and capital increase of Jingu Trust. With leverage to the resources of the Group, NCB has been continuously demonstrating a strong development potential, achieving steady increasing operating results, and continuously developing its interactions with the Group's main business. Concerning the strengthening of the core business and reinforcing collaboration between subsidiaries and the major businesses, the Company enhanced its comprehensive financial service ability, assisted customers in mitigating risks, reducing operating cost and enhancing asset value. The Company also established a comprehensive asset pricing model to strengthen economic capital management so as to improve efficiency in resource allocation of the Group. While the Company optimized its asset structure and business structure and reasonably raised the proportion of investment in equity assets, we further prolonged debt duration so as to consolidate the foundation for the long-term development of the Company.

We worked to enhance corporate governance to optimize operating system and achieve wide market recognition and brand value. The Company adapted to the new trend of transformation of corporate governance, adhered to standardizing the operation and consolidating the leadership enhancement of the Party with the improvement of corporate governance and continued to improve a governance system and coordination capacity with clear division of rights and responsibilities, scientific management and an effective check-and-balance mechanism. Through implementing corporate governance, new regulatory requirements, the Company performed its obligations owed to the shareholders, customers, employees and other stakeholders. The Company highly valued communication and interaction with the capital market. With high quality information disclosure and investor relationship management, the Company gained wide recognition from the market. In 2017, the Company received the “2016 Quam Investor Relations Awards (Main Board Category)” and the awards of “Listed Company with the Best Investor Relations Management” and “Listed Company with the Best Investment Value” under the China Securities Golden Bauhinia Awards.

To act as a socially responsible financial enterprise, we integrated social responsibilities and implemented core values into our business. The Company adhered to the comprehensive value theory and promoted the commercial value and social value simultaneously. Focusing on the core business to mitigate financial risks and serve the real economy, the Company also carried out its duties diligently in employee development, environmental protection and targeted poverty alleviation. The Company is committed to helping all employees realizing their own value, promoting the development of employees with the Company and sharing with them the fruits of the Company’s development. The Company is also fully committed to environmental protection, working for a Beautiful China by cutting resource consumption and operating in an environmental-friendly manner. As a corporate citizen, the Company enhanced social well-being through actively exploring new financial means for targeted poverty alleviation and providing support for poverty areas.

In 2018, entering a new era, embarking on a new journey, and facing new challenges, with the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the Company will seize the characteristics of high-quality economic development, persist on ideas of new development, seize the opportunities of the new era, and implement various regulatory requirements. The Company will capture its market position, so as to uphold and explore opportunities in the distressed asset management business as our main task through optimization of business structure and enhancement of resource allocation efficiency, and to achieve breakthrough by way of further reforming the Company’s management system and mechanism. The Company will keep confidence in its strategic development and its core business and serve the real economy, so as to achieve stable and far-reaching progress in enhancing its development quality and operational efficiency, create the new fruits of development and reform with the support of all shareholders and the community and share the fruits with them.



Chairman: **HOU Jianhang**
March 27, 2018

4 PRESIDENT'S STATEMENT

In 2017, amid a complicated and ever-changing international and domestic economic and financial environment, the Company faced a series of challenges in tackling the barely maintained market equilibrium, various risks, the deleveraging process and strict government supervision. To address these issues, the Company promptly adjusted its priorities and committed firmly to the goals of serving the real economy and keeping focus on its core business. In addition, the Company further emphasized on supply-side structural reforms including restructuring existing assets, optimizing incremental assets and transforming growth drivers, while further expanding its market and continually focusing on key projects along with enhancing risk prevention, and optimizing the Group's system and mechanism, so as to promote the steady and coordinated development of the Company.

Enhancements in scale, quality and efficiency were achieved steady and net profit hit the record high. In 2017, the Group achieved a net profit attributable to the shareholders of the Company of RMB18.12 billion, representing an increase of 16.8% year-on-year. At the end of 2017, the total assets of the Group reached RMB1,386.94 billion, representing an increase of 18.1% as compared to the end of 2016. The return on average shareholders' equity was 13.88%. The capital adequacy ratio of the Company was 16.77%, which had a better margin of safety compared with regulatory requirements.

The management of assets and liabilities has been strengthened and the asset structure has been optimized continuously. The Company worked on improving its internal product pricing model and set up an internal product pricing system that was based on controlling cost of funds and risk premiums. We managed to improve asset quality and resource efficiency through capital costs management and capital constraints. The overall asset structure was significantly optimized and the maturity structure improved significantly. The overall proportion of different assets was henceforth rationalized, which help to further strengthen the base for continuous development. The Company managed to strengthen financing management, optimize financing plans, optimize liability structure, extend the maturity of liabilities and ensure adequate liquidity for the Group.

We concentrated on the core business of distressed asset management and contributed to financial risk prevention and mitigation. The Company focused its resources on the development of the core business of distressed asset management and worked on preventing and mitigating financial risks so as to maximize the value of distressed enterprises. During the year, the Company maintained its leading position in open-market acquisition of operational distressed assets in terms of market share. The distressed asset management achieved satisfactory income, which led to synergistic development of other business segments. In 2017, the net income from acquisition-operation distressed assets was RMB8.80 billion, representing an increase of 50.7% as compared with the previous year. The Company forged ahead with the transformation of restructured distressed asset business, optimized the asset structure and consolidated the Group's competencies in core business to ensure the steady development of restructured distressed asset business. The Company worked closely on cutting overcapacity, reducing excess inventory, deleveraging, lowering costs and strengthening areas of weakness and actively promoted the implementation of market-oriented debt-to-equity swap projects to support deleveraging of real economy.

We committed to serving the real economy through supporting the supply-side structural reforms. We actively participated in the mixed-ownership reform of state-owned enterprises through promoting the separation between their principal business and secondary businesses and also their mergers and reorganization so as to optimize their operations and strengthen their capabilities. We actively played a supporting role in the national major development strategies to facilitate the transition from old to new growth drivers. We focused on the Group's strategy of expanding the scope of distressed asset business, to explore opportunities in special occasion investments relating to distressed entities and distressed assets and revitalize existing assets. We supported the development of emerging industries through the transformation and upgrading of investment and asset management businesses.

We committed to enhancing comprehensive risk management to further consolidate our business foundation. We took forward compliance system building and have basically developed a well-organized system with clear logic, refined content and neat format. We promoted the establishment of a comprehensive risk management system to improve the efficiency and effectiveness of our risk management. The Group's risk control ability has been significantly enhanced through measures such as full implementation of economic capital management and a concentration risk management system, strengthening the management of intra-group transactions and connected transactions, optimizing the monitoring and evaluation of corporate risks, and comprehensive enhancement of risk accountability. While mitigating effectively existing risks, we maintained strict control on incremental risks and strengthening the full-process management of major projects. At the end of 2017, the impaired Restructured Distressed Assets ratio of the Company was 1.88%.

We accelerated the strategic integration of our subsidiaries and focused on our principal business to strengthen coordination. We completed the transfer of equity interest in Cinda P&C, initiated the internal restructuring of the domestic and foreign securities sector, and sorted out the Group's equity chain as well as enhancing the competitiveness of securities sectors. We also rationalized the institutional mechanisms of Zhongrun Development which achieved early success in its strategic transformation. We also initiated the introduction of strategic investors and capital increase of Jingu Trust. The integration of our subsidiaries further optimized the Group's financial service layout and enhanced synergy.

We paid close attention to differentiation, specialization and professional operation to significantly enhance the operating ability of our branches and subsidiaries. We guided the branches to integrate unique regional resources as well as features of industries and enterprises it served. Each of our branches fine-tuned its business direction, optimized the respective differentiation and distinctive business strategies to further reflect its own comparative advantages. All subsidiaries had been able to further strengthen their professionalism, promote business development with differentiated services while enhancing synergy.

In 2018, the Company will face more complicated internal and external environments. The opportunities and challenges of the business development of the Company coexist. We must earnestly put in practice the guiding principles adopted at the 19th National Congress of the CPC, the National Financial Work Conference and Central Economic Work Conference and implemented various regulatory policies, and follow Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era in driving forward the reform and development of the Company, and further consolidate our strategic focus and business confidence. We shall focus on our core business, actively participate in supply-side structural reforms to better serve the real economy, continue to step up risk prevention and control, and strive to achieve sustained, steady and healthy development of all businesses. Through these efforts, we will create greater value for our shareholders, customers, employees and the society.



President: **CHEN Xiaozhou**

March 27, 2018

5 STATEMENT OF CHAIRMAN OF THE BOARD OF SUPERVISORS

2017 was a pivotal and a crucial year for securing a decisive victory in building a moderately prosperous society in all aspects. It was also an important year for the Company in respect of transformation and development. The Company kept to the general tone of seeking progress while maintaining stability, forged ahead with determination and overcame difficulties in tackling problems. The continuous advancement of system building, more rational allocation of resources, optimization of business structure and continuous growth of operating results have further strengthened the Company's core competitiveness.

In 2017, keeping pace with changing times, the Board of Supervisors systematically revised its governance system in strict accordance with the new regulatory requirements, carried out performance supervision down-to-earth, objectively and fairly evaluated the annual performance of the Board, Senior Management and its members, earnestly performed the function of financial supervision, focused on the deployment and implementation of corporate finance, accounting management and tax planning, continued to strengthen the supervision of risk and internal control and actively performed the duty of risk supervision so as to promote the fulfillment of the risk management responsibilities and the improvement of the internal control mechanism. Special researches and inspections were made and opinions and suggestions were given on various aspects including overall tax planning, capital management construction, investment and asset management business and internal control of information flow within the Company. The Board of Supervisors has played its part in the strategic transformation and sustainable and healthy development of the Company.

On our long journey against all odds, loads on our hands but here we go. In 2018, the Board of Supervisors will thoroughly study and carry out the guiding principles adopted at the 19th National Congress of the CPC, the National Financial Work Conference and the Central Economic Work Conference, as well as the decisions and arrangements of CBRC. At the same time, we will stay vigilant in capturing the opportunities and challenges brought by the Company's transformation and development under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era. With the goal of promoting and supervising the Company to focus on its core business, transformation and development, and with a focus on implementing the regulatory requirements of CBRC, innovating means of supervision and strengthening risk prevention and control, we will give full play to the functions of supervisory work, further improve the pertinence and effectiveness of such functions and promote the sustained and healthy development of the Company.



Chairman of the Board of Supervisors: **GONG Jiande**
March 27, 2018

6 MANAGEMENT DISCUSSION AND ANALYSIS

6.1 Economic and Regulatory Environment

In 2017, global economy recovered gradually as we saw more solid fundamentals for the recovery of major economies. The US economy enjoyed a moderate growth and the Eurozone economy witnessed strong growth momentum. While the economic recovery in Japan faced a challenging environment, the emerging economies were gradually pulling out of recession. Considerable divergence among various regions across the globe is still evident. The Federal Reserve raised interest rates for the third time and started to reduce its balance sheet, while Britain, Canada, South Korea and other countries raised interest rates for the first time in many years. There were also signs that the loose monetary policies in the Eurozone and Japan are reversing. In the meantime, continuous inflation of the global asset bubble and the rising debt scale have caused concerns about their impact on the global economic development.

In 2017, China's economy maintained a steady and favorable trend, with a continuously optimized economic structure and significantly improved quality of development. GDP growth rate remained in the mid-high range of 6.7% to 6.9% for ten consecutive quarters. Production demand was in a state of steady growth with an overall stable employment rate and price level. The tasks of "cutting overcapacity, reducing excess inventory, deleveraging, lowering costs, and strengthening areas of weakness" firmly proceeded and the policies continued to yield results. Overcapacity issues were resolved in an orderly manner and new momentum continued to grow. The Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era was introduced on the 19th National Congress of the CPC, which expounded the profound connotation of the new era, new orientation, new contradictions, new missions and new journey. The new direction for China's future economic development is the adoption of new development concepts and building a modern economic system.

Prevention and control of financial risks is the task of China throughout the year. The 19th CPC National Congress the National Financial Work Conference, and the Central Economic Work Conference has constantly emphasized that the bottom line of no systemic financial risks should be held. First, the macro control framework based on two pillars was improved, namely monetary policy and macro-prudential policies. A robust and neutral monetary policy with MPA assessment, has actively and steadily promoted the financial de-leveraging works based on maintaining stable liquidity. Second, reform of the regulatory system was promoted. State Council Financial Stability Development Committee was established to strengthen financial supervision and coordination, shore up weak links in supervision and integrate banking and insurance regulatory functions. Thirdly, strict supervision was upheld. A series of intensive regulatory policies and measures were issued and special rectification financial institutions to return to the origin and focus on their main business.

The regulatory authorities took multiple measures to effectively control financial risks and create a favourable policy atmosphere for distressed assets operation. Firstly, they encouraged banks to reflect the actual conditions of distressed assets and speed up the disposal of distressed assets. Emphasis was placed on the control of inaccurate classification of asset risks and the behaviors of hiding or transferring distressed assets through various means, in order to support banks in disposing distressed assets through asset restructuring, transfer, recovery, write-off and other means. Secondly, the financial asset management companies were instructed to focus on their main business. The diversified operation risks were prevented through lowering the bulk transfer barrier of distressed assets and strengthening capital management in order to strengthen distressed asset business of the financial asset management companies. Thirdly, variety of market participants of distressed assets were enriched and innovation of distressed assets business was encouraged. Local asset management companies continued to expand, and banks were allowed to prepare for setting up financial asset investment subsidiaries. The promotion of the securitization of distressed assets, the pilot transfer of income rights of distressed assets and the marketization of debt to equity swap continued. Fourthly, the legal environment was improved. The qualification of a financial asset management company to act as an authorized entity for mortgage registration was specified and the corporate bankruptcy system was improved.

6.2 Analysis of Financial Statements

6.2.1 Operating Results of the Group

In 2017, under the complicated changing domestic and overseas economic and financial environment and an increasingly stringent financial regulatory environment, the Group increased its efforts in facilitating the business transformation, accelerated strategic consolidation of its subsidiaries and focused on its core business to capitalise on its traditional strengths. In addition to ensuring capital adequacy and maintaining appropriate leverage and risk within control, the Group adjusted and continuously optimized its structure of assets and liabilities and achieved stable growth in asset and net profit.

In 2017, the net profit attributable to equity holders of the Company amounted to RMB18,122.4 million, representing an increase of RMB2,610.2 million, or 16.8%, as compared to the previous year. ROE and ROA were 13.88% and 1.46%, respectively.

For the year ended December 31,				Change in percentage
	2017	2016	Change	(%)
	<i>(in millions of RMB)</i>			
Income from distressed debt assets classified as receivables	17,773.0	15,539.2	2,233.8	14.4
Fair value changes on distressed debt assets	8,266.4	5,716.2	2,550.2	44.6
Fair value changes on other financial assets	2,582.2	2,656.3	(74.1)	(2.8)
Investment income	29,465.7	17,991.3	11,474.4	63.8
Net insurance premiums earned	19,266.9	16,635.8	2,631.1	15.8
Interest income	20,640.8	14,506.5	6,134.3	42.3
Revenue from sales of inventories	14,425.5	10,954.6	3,470.9	31.7
Commission and fee income	4,218.9	3,848.1	370.8	9.6
Net gains on disposal of subsidiaries, associates and joint ventures	3,659.2	997.0	2,662.2	267.0
Other income and net gains or losses	(264.0)	2,812.2	(3,076.2)	(109.4)
Total income	120,034.6	91,657.2	28,377.4	31.0
Insurance costs	(20,913.7)	(17,549.0)	(3,364.7)	19.2
Commission and fee expense	(2,404.9)	(2,122.4)	(282.5)	13.3
Purchases and changes in inventories	(10,355.8)	(8,455.8)	(1,900.0)	22.5
Employee benefits	(7,411.3)	(6,109.7)	(1,301.6)	21.3
Impairment losses on assets	(11,404.7)	(4,813.7)	(6,591.0)	136.9
Interest expense	(35,911.1)	(23,223.8)	(12,687.3)	54.6
Other expenses	(5,835.3)	(6,083.3)	248.0	(4.1)
Total costs and expenses	(94,236.7)	(68,357.7)	(25,879.0)	37.9
Change in net assets attributable to other holders of consolidated structured entities	(1,284.7)	(2,331.7)	1,047.0	(44.9)
Share of results of associates and joint ventures	1,617.7	797.7	820.0	102.8
Profit before tax	26,130.8	21,765.5	4,365.3	20.1
Income tax expense	(7,373.0)	(5,783.5)	(1,589.5)	27.5
Net profit for the year	18,757.8	15,982.0	2,775.8	17.4
Profit attributable to:				
Equity holders of the Company	18,122.4	15,512.2	2,610.2	16.8
Non-controlling interests	635.4	469.8	165.6	35.2

6.2.1.1 Total Income

In 2017, income structure of the Group became more diversified with steady growth in total income. The total income increased from RMB91,657.2 million in 2016 to RMB120,034.6 million in 2017, representing an increase of 31.0%.

Income from Distressed Assets

Distressed assets management business is the core business of the Group. The income from distressed assets management is classified into (1) income from distressed debt assets classified as receivables, i.e. income from debt restructuring; (2) fair value changes on distressed debt assets, including realized gains or losses from disposal of distressed debt assets designated at fair value and unrealized fair value changes on such assets; (3) income from DES Assets, including dividend income and net gains on investment of DES Assets, which is accounted for as investment income and net gains on disposal of associates and joint ventures; (4) net gains on disposal of assets in satisfaction of debt; and (5) commission and fee income from custody, liquidation and restructuring services for distressed entities.

The table below sets out the principal components of the income from distressed assets for the years indicated.

	For the year ended December 31,			
	2017	2016	Change	Change in percentage (%)
	<i>(in millions of RMB)</i>			
Income from distressed debt assets classified as receivables	17,773.0	15,539.2	2,233.8	14.4
Fair value changes on distressed debt assets	8,266.4	5,716.2	2,550.2	44.6
Available-for-sale financial assets investment income ⁽¹⁾	14,043.6	6,151.9	7,891.7	128.3
Net gains on disposal of assets in satisfaction of debts ⁽²⁾	108.0	63.3	44.7	70.6
Total	<u>40,191.0</u>	<u>27,470.7</u>	<u>12,720.3</u>	<u>46.3</u>

Notes:

- (1) Represents investment income from available-for-sale equity assets included in distressed asset management segment, including net gains realized on investment of and dividend income from such equity assets included as “investment income” in the consolidated statement of profit or loss.
- (2) Included in “other income and net gains or losses” in the consolidated statement of profit or loss.

The income from distressed assets increased by 46.3% from RMB27,470.7 million in 2016 to RMB40,191.0 million in 2017, accounting for 30.0% and 33.5% of the total income for 2016 and 2017.

Income from Distressed Debt Assets Classified as Receivables

The income from distressed debt assets classified as receivables increased from RMB15,539.2 million in 2016 to RMB17,773.0 million in 2017, representing an increase of 14.4%, and accounting for 17.0% and 14.8% of the total income for 2016 and 2017. The increase in income was primarily due to the Company facilitated business transformation while reinforcing the advantages of its core business, steadily facilitating the acquisition of additional assets and maintaining the continuous growth of asset. As at the end of 2016 and 2017, the balance of the Group's distressed debt assets classified as receivables was RMB191,440.5 million and RMB223,957.5 million, respectively. The Company's annualized return on monthly average balance decreased from 9.9% in 2016 to 8.6% in 2017, which was mainly due to the fact that the Company actively adjusted the assets structure and emphasized the earnings after risk adjustment.

Fair Value Changes on Distressed Debt Assets

Fair value changes on distressed debt assets increased from RMB5,716.2 million in 2016 to RMB8,266.4 million in 2017, representing an increase of 44.6%, and accounting for 6.2% and 6.9% of the total income for 2016 and 2017, respectively. As at December 31, 2016 and 2017, the balance of distressed debt assets designated at fair value through profit or loss were RMB94,458.6 million and RMB148,790.1 million, respectively.

The table below sets out the components of fair value changes on distressed debt assets of the Group for the years indicated.

	For the year ended December 31,			Change in
	2017	2016	Change	percentage
	<i>(in millions of RMB)</i>			(%)
Realized fair value changes	9,096.0	5,876.9	3,219.1	54.8
Unrealized fair value changes	(829.6)	(160.7)	(668.9)	416.2
Total	<u>8,266.4</u>	<u>5,716.2</u>	<u>2,550.2</u>	<u>44.6</u>

The table below sets out fair value changes on distressed debt assets for the years indicated.

**As at and
for the year ended
December 31,
(in millions of RMB)**

December 31, 2015	84,620.7
Acquisition during the year	73,705.7
Disposal during the year	(63,707.2)
Unrealized fair value changes	(160.7)
December 31, 2016	94,458.6
Acquisition during the year	86,701.5
Disposal during the year	(31,540.4)
Unrealized fair value changes	(829.6)
December 31, 2017	148,790.1

The fair value changes on distressed debt assets of the Group increased by 44.6% in 2017 as compared to 2016, primarily due to an increase in realized fair value changes, increasing by 54.8% from RMB5,876.9 million in 2016 to RMB9,096.0 million in 2017. The disposal amount changed from RMB63,707.2 million in 2016 to RMB31,540.4 million in 2017. The increase of disposal income and the decrease of disposal amount were mainly due to the Company continued to explore and implement differentiated disposal strategies, seized the market opportunities and captured the pace of disposal, pursuing maximizing the gain from asset disposal. The Company's internal rate of return of Acquisition-operation¹ distressed debt assets was 17.8% in 2017, remained steadily.

Investment Income

The investment income of the Group increased from RMB17,991.3 million in 2016 to RMB29,465.7 million in 2017, representing an increase of 63.8%, and accounting for 19.6% and 24.5% of the total income in 2016 and 2017, respectively.

The table below sets out the components of investment income of the Group for the years indicated.

¹ In order to help investors get a better understanding of the operation and business characteristics of our distressed asset management business, starting from 2017 annual report, the Company revised the terms from "Traditional Distressed Assets" into "Acquisition-operation distressed assets".

For the year ended December 31,				Change in percentage
	2017	2016	Change	(%)
	<i>(in millions of RMB)</i>			
Net realized gains from disposal of				
Available-for-sale financial assets	14,401.3	7,980.8	6,420.5	80.4
Interest income from investment securities				
Available-for-sale financial assets	3,691.3	1,919.2	1,772.1	92.3
Debt instruments classified as receivables	1,294.2	1,209.0	85.2	7.0
Held-to-maturity investments	602.0	428.0	174.0	40.7
Dividend income				
Available-for-sale financial assets	8,879.9	6,454.3	2,425.6	37.6
Others	597.0	–	597.0	100.0
Total	<u>29,465.7</u>	<u>17,991.3</u>	<u>11,474.4</u>	<u>63.8</u>

In 2017, the total investment income of the Group increased by 63.8% as compared to 2016, among which (1) the net gains from disposal of available-for-sale financial assets increased by 80.4%, from RMB7,980.8 million in 2016 to RMB14,401.3 million in 2017, mainly due to part of the Company's DES Assets met the conditions of equity method and recognized as investment income in the year of 2017; (2) the securities interest income from available-for-sale financial assets increased by 92.3%, from RMB1,919.2 million in 2016 to RMB3,691.3 million in 2017, mainly due to the different consolidated period after the incorporation of NCB in the consolidated financial statements of the Group on May 30, 2016; (3) the dividend income from available-for-sale financial assets rose by 37.6%, from RMB6,454.3 million in 2016 to RMB8,879.9 million in 2017, mainly due to the increase in the amounts of unconsolidated structured entities in 2017 resulting in the growth of profit distribution accordingly.

The table below sets out the components of investment income from the available-for-sale financial assets of the Group for the years indicated.

For the year ended December 31,				Change in
	2017	2016	Change	percentage
	(in millions of RMB)			(%)
Net realized gains on disposal of				
available-for-sale financial assets	14,401.3	7,980.8	6,420.5	80.4
DES Assets of the Company ⁽¹⁾	13,870.1	4,580.8	9,289.3	202.8
Others	531.2	3,400.0	(2,868.8)	(84.4)
Interest income from available-for-sale				
financial assets	3,691.3	1,919.2	1,772.1	92.3
Dividend income from available-for-sale				
financial assets	8,879.9	6,454.3	2,425.6	37.6
DES Assets of the Company	173.5	1,571.1	(1,397.6)	(89.0)
Principal equity investment of the Company and others	8,706.4	4,883.2	3,823.2	78.3
Total	26,972.5	16,354.3	10,618.2	64.9

Note:

- (1) Represents net realized gains on disposal of DES Assets under available-for-sale financial assets and does not include net realized gains from disposal of interests in associates and joint ventures included in DES Assets.

Investment income from available-for-sale financial assets increased by 64.9%, from RMB16,354.3 million in 2016 to RMB26,972.5 million in 2017. Investment income from available-for-sale financial assets, which is the largest component of the investment income, accounted for 90.9% and 91.5% of the total investment income in 2016 and 2017, respectively.

Net Insurance Premiums Earned

The table below sets out the components of the net insurance premiums earned of the Group for the years indicated.

For the year ended December 31,				Change in
	2017	2016	Change	percentage
	<i>(in millions of RMB)</i>			(%)
Gross written premiums	19,311.8	16,891.4	2,420.4	14.3
Less: Premiums ceded to reinsurers	51.1	139.4	(88.3)	(63.3)
Withdrawal of unearned premium reserves	(6.2)	116.2	(122.4)	(105.3)
Net insurance premiums earned	<u>19,266.9</u>	<u>16,635.8</u>	<u>2,631.1</u>	<u>15.8</u>

The gross written premiums of the Group increased by 14.3% from RMB16,891.4 million in 2016 to RMB19,311.8 million in 2017, primarily attributable to the stable increase in the business scale of Happy Life, resulting in the increase in its gross written premiums by 35.5% from RMB13,632.7 million in 2016 to RMB18,474.8 million in 2017, which was partially offset by the decrease in income from Cinda P&C due to the different consolidated period as a result of the transfer of the equity of Cinda P&C by the Company in April 2017.

The premiums ceded to reinsurers and the withdrawal of unearned premium reserves of the Group in 2017 decreased as compared to 2016, of which, the withdrawal of unearned premium reserves decreased by 105.3% from RMB116.2 million in 2016 to reversal of RMB6.2 million in 2017, mainly due to the different consolidated period as a result of the transfer of equity of Cinda P&C.

Commission and Fee Income

The table below sets out the components of the commission and fee income of the Group for the years indicated.

For the year ended December 31,				Change in percentage
	2017	2016	Change	(%)
	(in millions of RMB)			
Securities and futures brokerage	1,094.4	1,537.1	(442.7)	(28.8)
Fund and asset management business	703.8	436.2	267.6	61.3
Consultancy and financial advisory services	331.9	657.1	(325.2)	(49.5)
Trustee services	507.6	320.3	187.3	58.5
Banking business	999.2	570.8	428.4	75.1
Securities underwriting	86.3	82.9	3.4	4.1
Agency business	377.1	95.7	281.4	294.0
Others	118.8	148.0	(29.2)	(19.7)
Total	4,218.9	3,848.1	370.8	9.6

The commission and fee income of the Group increased by 9.6% from RMB3,848.1 million in 2016 to RMB4,218.9 million in 2017, mainly due to the growth in commission income from fund and asset management business, banking business and agency business, which was partly offset by the decrease in the income from securities and futures brokerage and consultancy and financial advisory services. Among which:

- (1) The commission and fee income from banking business increased by 75.1% from RMB570.8 million in 2016 to RMB999.2 million in 2017. The commission and fee income from agency business increased by 294.0% from RMB95.7 million in 2016 to RMB377.1 million in 2017. These were attributable to the different consolidated period after the incorporation of NCB in the consolidated financial statements of the Group on May 30, 2016;
- (2) The increase of the commission and fee income from fund and asset management business were generated mainly from Cinda Capital and Cinda Hong Kong;
- (3) The commission and fee income from securities and futures brokerage decreased by 28.8% from RMB1,537.1 million in 2016 to RMB1,094.4 million in 2017, mainly due to the decrease in commission and fee income from brokerage business of Cinda Securities as a result of the continuous decrease in trading volume of the capital market and the decrease in commission rate in 2017.
- (4) The commission and fee income from consultancy and financial advisory services decreased by 49.5% from RMB657.1 million in 2016 to RMB331.9 million in 2017, mainly due to the decrease in income from investment consultancy business of Cinda Hong Kong and its subsidiaries.

Revenue from sales of inventories and purchases and changes in inventories

The table below sets out the components of revenue from sales of inventories and purchases and changes in inventories of the Group for the years indicated.

For the year ended December 31,				Change in percentage
	2017	2016	Change	(%)
	<i>(in millions of RMB)</i>			
Revenue from sales of inventories	14,425.5	10,954.6	3,470.9	31.7
Purchases and changes in inventories including:	(10,355.8)	(8,455.8)	(1,900.0)	22.5
Revenue from sales of properties held for sale	14,358.2	10,918.1	3,440.1	31.5
Purchases and changes in properties held for sale	(10,310.9)	(8,428.3)	(1,882.6)	22.3
Gross profit from sales of properties held for sale	4,047.4	2,489.8	1,557.6	62.6
Gross profit margin from sales of properties held for sale (%)	28.2	22.8	5.4	23.7

The revenue from sale of inventories of the Group increased by 31.7% from RMB10,954.6 million in 2016 to RMB14,425.5 million in 2017 and the purchases and changes in inventories increased by 22.5% from RMB8,455.8 million in 2016 to RMB10,355.8 million in 2017.

The revenue from sale of properties held for sale of the Group increased by 31.5% from RMB10,918.1 million in 2016 to RMB14,358.2 million in 2017 while the purchases and changes in properties held for sale increased by 22.3% from RMB8,428.3 million in 2016 to RMB10,310.9 million in 2017. The gross profit margin from sale of properties held for sale of the Group increased by 5.4 percentage points from 22.8% in 2016 to 28.2% in 2017. Revenue from sale of properties held for sale and purchases and changes in properties held for sale recorded growth as compared to 2016, mainly due to the growth in carrying profit resulted from the completion of various property development projects of Cinda Real Estate as scheduled according to the plan and reaching the revenue and cost recognition conditions.

Interest Income

The table below sets out the components of the interest income of the Group for the years indicated.

For the year ended December 31,				Change in percentage
	2017	2016	Change	(%)
	<i>(in millions of RMB)</i>			
Loans and advances to customers	12,180.3	8,584.4	3,595.9	41.9
Finance lease receivables	2,382.0	2,431.8	(49.8)	(2.0)
Loans to margin clients	554.1	555.6	(1.5)	(0.3)
Financial assets held under resale agreements	2,596.1	994.3	1,601.8	161.1
Deposits with banks and financial institutions	1,981.5	1,456.5	525.0	36.0
Placements with financial institutions	587.4	179.4	408.0	227.4
Balance with central banks	172.1	92.9	79.2	85.3
Accounts receivable	9.7	81.4	(71.7)	(88.1)
Others	177.6	130.3	47.3	36.3
Total	20,640.8	14,506.5	6,134.3	42.3

The interest income of the Group increased by 42.3% from RMB14,506.5 million in 2016 to RMB20,640.8 million in 2017, primarily due to the increase in interest income from loans and advances to customers and interest income from financial assets held under resale agreements.

The interest income from loans and advances to customers increased by 41.9% from RMB8,584.4 million in 2016 to RMB12,180.3 million in 2017, which was mainly due to the growth of the interest income from loans and advances to customers during different consolidated period after the incorporation of NCB in the consolidated financial statements of the Group on May 30, 2016.

The interest income from financial assets held under resale agreements increased by 161.1% from RMB994.3 million in 2016 to RMB2,596.1 million in 2017, mainly due to the strengthened capabilities in operation of short-term funds resulted from the continuous optimization of liquidity management of the Group.

Net Gains on Disposal of Subsidiaries, Associates and Joint Ventures

Net gains on disposal of subsidiaries, associates and joint ventures of the Group increased by 267.0% from RMB997.0 million in 2016 to RMB3,659.2 million in 2017, mainly due to the recognition of net gain on the Company's transfer of equity in a subsidiary, Cinda P&C, in April 2017 of RMB3.37 billion. The transfer of equity was completed in 2017. Upon completion, the Company still holds 10% of Cinda P&C's equity and Cinda P&C was no longer incorporated into the consolidated financial statements as a subsidiary of the Company.

Other Income and Other Net Gains or Losses

The table below sets out the components of the other income and other net gains or losses of the Group for the years indicated.

	For the year ended December 31,			Change in
	2017	2016	Change	percentage
	<i>(in millions of RMB)</i>			<i>(%)</i>
Revenue from hotel operation	468.3	483.7	(15.4)	(3.2)
Rental income	352.8	407.0	(54.2)	(13.3)
Revenue from property management business	262.9	231.4	31.5	13.6
Net gains on disposal of investment properties	–	20.5	(20.5)	(100.0)
Government grant and compensation	38.3	41.6	(3.3)	(7.9)
Net gains on disposal of other assets	108.0	63.3	44.7	70.6
Net gains/(losses) on exchange differences	(1,843.9)	1,140.5	(2,984.4)	(261.7)
Others	349.6	424.2	(74.6)	(17.6)
Total	<u>(264.0)</u>	<u>2,812.2</u>	<u>(3,076.2)</u>	<u>(109.4)</u>

The other income and other net gains or losses of the Group decreased by 109.4% from net income of RMB2,812.2 million in 2016 to net loss of RMB264.0 million in 2017, mainly due to a decrease in net gains or losses on exchange differences from net gain of RMB1,140.5 million in 2016 to net loss of RMB1,843.9 million in 2017. The impact of exchange rate changes in the Offshore Preferred Shares of USD3.2 billion issued by the Company and H Shares of HKD6.2 billion issued under the general mandate were recognized as other comprehensive income, while the changes in the exchange rate of the foreign currency assets were included in the exchange gains and losses. Due to the appreciation of the RMB exchange rate in 2017, the assets showed net exchange loss.

6.2.1.2 Total Costs and Expenses

Costs and expenses of the Group experienced a moderate increase as compared to 2016, which was in line with the income growth of the Group.

The table below sets out the components of the total costs and expenses of the Group for the years indicated.

	For the year ended December 31,			
	2017	2016	Change	Change in percentage
	(in millions of RMB)			(%)
Insurance costs	(20,913.7)	(17,549.0)	(3,364.7)	19.2
Commission and fee expense	(2,404.9)	(2,122.4)	(282.5)	13.3
Purchases and changes in inventories	(10,355.8)	(8,455.8)	(1,900.0)	22.5
Employee benefits	(7,411.3)	(6,109.7)	(1,301.6)	21.3
Taxes and surcharges	(687.4)	(1,302.6)	615.2	(47.2)
Depreciation and amortization	(854.0)	(740.4)	(113.6)	15.3
Impairment losses on assets	(11,404.7)	(4,813.7)	(6,591.0)	136.9
Interest expense	(35,911.1)	(23,223.8)	(12,687.3)	54.6
Other expenses	(4,293.8)	(4,040.3)	(253.5)	6.3
Total	(94,236.7)	(68,357.7)	(25,879.0)	37.9

The total costs and expenses of the Group increased by 37.9% from RMB68,357.7 million in 2016 to RMB94,236.7 million in 2017, mainly due to the increases in insurance costs, impairment losses on assets and interest expense.

Insurance Costs

The table below sets out the components of the insurance costs of the Group for the years indicated.

	For the year ended December 31,			Change in
	2017	2016	Change	percentage
	(in millions of RMB)			(%)
Reserves for insurance contracts	(8,477.7)	(5,025.8)	(3,451.9)	68.7
Interests credited and policyholder dividends	(1,229.1)	(2,063.9)	834.8	(40.4)
Refund of reinsurance premiums	9.2	(24.1)	33.3	(138.2)
Other insurance expenses ⁽¹⁾	(11,216.1)	(10,435.3)	(780.8)	7.5
Total	(20,913.7)	(17,549.0)	(3,364.7)	19.2

Note:

(1) Consists primarily of claims incurred, surrender payments and general and administrative expenses.

The insurance costs of the Group increased by 19.2% from RMB17,549.0 million in 2016 to RMB20,913.7 million in 2017, primarily due to the expansion in insurance business of Happy Life which led to a larger increase in reserves for insurance contracts.

Employee Benefits

The table below sets out the components of the employee benefits of the Group for the years indicated.

	For the year ended December 31,			Change in
	2017	2016	Change	percentage
	(in millions of RMB)			(%)
Wages or salaries, bonuses, allowances and subsidies	(5,933.8)	(4,816.8)	(1,117.0)	23.2
Social insurance	(260.3)	(208.0)	(52.3)	25.1
Defined contribution plans	(399.4)	(381.1)	(18.3)	4.8
Defined benefit plans	(3.9)	(4.5)	0.6	(13.3)
Housing funds	(234.3)	(275.0)	40.7	(14.8)
Labor union fees and staff education expenses	(192.3)	(143.3)	(49.0)	34.2
Others	(387.3)	(281.0)	(106.3)	37.8
Total	(7,411.3)	(6,109.7)	(1,301.6)	21.3

The employee benefits increased by 21.3% from RMB6,109.7 million in 2016 to RMB7,411.3 million in 2017, primarily due to (1) after the incorporation of NCB in the consolidated financial statements by the Company on May 30, 2016, the different consolidated period led to increase in staff cost; (2) the Company transferred equity interests of Cinda P&C in 2017 and the different consolidated period led to decrease in staff cost; (3) the Company increased the relevant staff cost in accordance with profit contribution.

Impairment Losses on Assets

The table below sets out the components of the impairment losses on assets of the Group for the years indicated.

	For the year ended December 31,			Change in
	2017	2016	Change	percentage
	<i>(in millions of RMB)</i>			<i>(%)</i>
Available-for-sale financial assets	(5,229.5)	(2,554.7)	(2,674.8)	104.7
Distressed debt assets classified as receivables	(3,133.2)	(1,209.6)	(1,923.6)	159.0
Loans and advances to customers	(1,874.8)	(440.3)	(1,434.5)	325.8
Other assets	(573.6)	(98.6)	(475.0)	481.7
Properties held for sale	(337.6)	(150.1)	(187.5)	124.9
Dividends receivable	(209.9)	(87.7)	(122.2)	139.3
Accounts receivable	(31.1)	(1.8)	(29.3)	1,627.8
Other financial assets classified as receivables	(15.0)	(270.9)	255.9	(94.5)
Total	<u>(11,404.7)</u>	<u>(4,813.7)</u>	<u>(6,591.0)</u>	<u>136.9</u>

The impairment losses on assets of the Group increased by 136.9% from RMB4,813.7 million in 2016 to RMB11,404.7 million in 2017, primarily due to the increase in impairment loss of available-for-sale financial assets, distressed debt assets classified as receivables and loans and advances to customers.

The impairment losses on available-for-sale financial assets increased by 104.7% from RMB2,554.7 million in 2016 to RMB5,229.5 million in 2017, primarily due to that: (1) the Company strengthened its risk offset ability according to the changes in market credit risks and increased provision for fixed income products of available-for-sale financial assets; (2) a few unlisted equity interests held by the Company showed signs of impairment for the year, and the impairment losses on assets were made in accordance with relevant accounting policies.

The impairment losses on distressed debt assets classified as receivables increased by 159.0% from RMB1,209.6 million in 2016 to RMB3,133.2 million in 2017, primarily due to the increase in total distressed debt assets classified as receivables from RMB191,440.5 million as at December 31, 2016 to RMB223,957.5 million as at December 31, 2017, as well as the increase in the impaired distressed debt assets ratio, resulting in the increase in the provision for distressed debt assets classified as receivables.

The impairment loss on loans and advances to customers increased by 325.8% from RMB440.3 million in 2016 to RMB1,874.8 million in 2017, mainly due to the effect from the different consolidated period of NCB and the increase in provisions for loans of private funds consolidated by the Group.

Interest Expense

The table below sets out the principal components of the interest expense for the years indicated.

	For the year ended December 31,			
	2017	2016	Change	Change in percentage
	<i>(in millions of RMB)</i>			<i>(%)</i>
Borrowings	(23,707.3)	(15,508.2)	(8,199.1)	52.9
Bonds issued	(7,626.3)	(5,512.1)	(2,114.2)	38.4
Due to customers	(2,579.2)	(1,327.2)	(1,252.0)	94.3
Accounts payable to brokerage clients	(48.4)	(66.1)	17.7	(26.8)
Financial assets sold under repurchase agreements	(273.4)	(363.4)	90.0	(24.8)
Placements from banks and financial institutions	(314.7)	(176.9)	(137.8)	77.9
Others	(1,361.8)	(269.9)	(1,091.9)	404.6
Total	<u>(35,911.1)</u>	<u>(23,223.8)</u>	<u>(12,687.3)</u>	<u>54.6</u>

The interest expense increased by 54.6% from RMB23,223.8 million in 2016 to RMB35,911.1 million in 2017, primarily due to (1) the increase in borrowings and bonds issued and thereby the increase in interest expense resulted from the increase in financing needs to support the business development of distressed asset management; (2) the increase in interest expense of due to customers as a result of the different consolidated period after the incorporation of NCB by the Company on May 30, 2016.

The interest expenses on the borrowings of the Group increased by 52.9% from RMB15,508.2 million in 2016 to RMB23,707.3 million in 2017, primarily due to (1) the increase in borrowings and thereby the increase in interest expenses resulted from the development of distressed asset management by the Company; (2) the financing expansion and thereby the increase in interest expenses resulted from the needs of business development of Cinda Investment; (3) the increase in the demand in borrowings and thereby the increase in interest expenses of borrowings resulted from overseas investment business expansion of Cinda Hong Kong.

The interest expense on bonds issued increased by 38.4% from RMB5,512.1 million in 2016 to RMB7,626.3 million in 2017, primarily due to the fact that the Company and relevant subsidiaries of the Group diversified their liabilities structure and increased the bonds issuance resulting in the increase in interest expense on bonds issued.

The interest expense on due to customers of the Group came from NCB, and the interest expense on due to customers amounted to RMB2,579.2 million in 2017, representing an increase of 94.3%, as compared to 2016.

6.2.1.3 Income Tax Expense

The table below sets out the income tax expense of the Group for the years indicated.

	For the year ended December 31,			
	2017 (in millions of RMB)	2016	Change	Change in percentage (%)
Profit before tax	26,130.8	21,765.5	4,365.3	20.1
Income tax expense	(7,373.0)	(5,783.5)	(1,589.5)	27.5
Effective tax rate (%)	28.2	26.6	1.6	6.0

The income tax expense of the Group increased by 27.5% from RMB5,783.5 million in 2016 to RMB7,373.0 million in 2017, primarily due to an increase in the taxable income. In 2016 and 2017, the effective tax rates were 26.6% and 28.2%, respectively. The increase in effective tax rate was primarily due to the increase in effect of tax losses and deductible temporary differences not recognized and land appreciation tax.

6.2.1.4 Segment Results of Operations

We report the financial results in three segments:

- (1) The scope of the Group's distressed asset management business includes (i) the management and disposal of distressed debt assets acquired from financial institutions and non-financial enterprises; (ii) the management and disposal of DES Assets, and (iii) restructuring, custody, liquidation and special situation business related to distressed assets and distressed entities through collaborative and integrated solutions within the Group.
- (2) Financial investment and asset management business, such as principal investment, asset management and the consulting and financial advisory services;
- (3) Financial services business such as banking, securities, futures, fund management, trusts, financial leasing and insurance.

The following table sets forth the segment financial results and positions of the Group as at the dates and for the years indicated.

	For the year ended December 31,									
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Distressed asset management		Financial investment and asset management		Financial services (in millions of RMB)		Elimination		Consolidation	
Total income	45,269.2	32,069.3	33,708.2	27,302.9	42,841.5	34,165.1	(1,784.4)	(1,880.1)	120,034.6	91,657.2
Percentage of total (%)	37.7	35.0	28.1	29.8	35.7	37.3				
Total costs and expenses	(30,758.8)	(17,831.3)	(24,762.7)	(19,575.6)	(40,146.2)	(31,756.3)	1,431.1	805.6	(94,236.7)	(68,357.7)
Profit before tax	15,075.8	14,424.8	9,041.7	6,308.9	2,366.6	2,106.3	(353.3)	(1,074.5)	26,130.8	21,765.5
Percentage of total (%)	57.7	66.3	34.6	29.0	9.1	9.7				
Profit margin (%)	33.3	45.0	26.8	23.1	5.5	6.2			21.8	23.7
Return on net assets before tax ⁽¹⁾ (%)	18.3	21.7	18.6	15.5	6.9	7.8			16.5	17.0
As at December 31,										
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Distressed asset management		Financial investment and asset management		Financial services (in millions of RMB)		Unallocated part ⁽²⁾ and elimination		Consolidation	
Total assets	593,061.6	457,606.7	301,566.3	269,186.6	545,215.7	493,780.1	(52,906.2)	(46,092.4)	1,386,937.5	1,174,480.9
Percentage of total (%)	42.8	39.0	21.7	22.9	39.3	42.0				
Net assets	88,268.4	76,387.2	46,557.3	50,679.8	40,315.5	27,846.0	(6,876.5)	(6,943.0)	168,264.7	147,970.0
Percentage of total (%)	52.5	51.6	27.7	34.3	24.0	18.8				

Notes:

(1) Refers to profit before tax divided by the average of net assets at the beginning and end of the year.

(2) Represents primarily deferred tax assets and liabilities which were not allocated to each business segment.

Distressed asset management is our core business and one of our principal income contributors. In 2016 and 2017, the income generated from distressed asset management accounted for 35.0% and 37.7% of our total income, respectively, and the profit before tax generated from distressed asset management accounted for 66.3% and 57.7% of our total profit before tax, respectively. As at December 31, 2016 and 2017, the net assets of our distressed asset management accounted for 51.6% and 52.5% of our total net assets, respectively.

Financial investment and asset management services are extension of the core business of distressed asset management and also an important functional platform serving for the maximization of distressed asset management value. The profit contribution from the financial investment and asset management services increased as a result of rapid expansion of the business, in 2016 and 2017, accounting for 29.0% and 34.6% of the total profit before tax of the Group, respectively. In 2016 and 2017, the profit margin before tax of this segment were 23.1% and 26.8%, respectively, and return on net assets before tax were 15.5% and 18.6%, respectively.

As a key component of the business of the Group and an important cross-selling driver, the financial services business benefited from our synergistic and diversified operations and management strategies. The Group achieved the rapid growth of asset of financial services segment and significant synergies arising from the acquisition of NCB in 2016. In 2017, the financial services segment continued to utilize the Group's synergies and the total income of the segment in 2017 increased continuously by 25.4% as compared to 2016.

Please see "Business Overview" for the details of the development of each of the business segments.

6.2.2 Summary of Financial Position of the Group

In 2017, the Group's assets, liabilities and equity maintained steady growth. As at December 31, 2016 and 2017, the total assets of the Group amounted to RMB1,174,480.9 million and RMB1,386,937.5 million, respectively, representing an increase of 18.1%. Total liabilities of the Group amounted to RMB1,026,510.9 million and RMB1,218,672.9 million, respectively, representing an increase of 18.7%. Total equity amounted to RMB147,970.0 million and RMB168,264.7 million, respectively, representing an increase of 13.7%.

The table below sets forth the major items of balance sheet of the Group as at the dates indicated.

	As at December 31,			
	2017		2016	
	Amount	Percentage (%) (in millions of RMB)	Amount	Percentage (%)
Assets				
Cash and balances with central banks	21,511.1	1.6	17,368.0	1.5
Deposits with banks and financial institutions	54,429.2	3.9	75,801.3	6.5
Financial assets at fair value through profit or loss	213,795.9	15.4	149,045.5	12.7
Available-for-sale financial assets	273,182.7	19.7	212,495.9	18.1
Financial assets classified as receivables	234,226.9	16.9	198,787.2	16.9
Loans and advances to customers	312,117.5	22.5	294,936.6	25.1
Other assets	277,674.2	20.0	226,046.4	19.2
Total assets	1,386,937.5	100.0	1,174,480.9	100.0
Liabilities				
Borrowings from central bank	986.1	0.1	986.1	0.1
Accounts payable to brokerage clients	12,393.8	1.0	16,272.1	1.6
Due to customers	226,220.8	18.6	204,629.0	19.9
Borrowings	580,352.1	47.6	450,514.8	43.9
Accounts payable	3,220.9	0.3	3,053.9	0.3
Bonds issued	206,482.6	16.9	152,497.6	14.9
Other liabilities	189,016.6	15.5	198,557.4	19.3
Total liabilities	1,218,672.9	100.0	1,026,510.9	100.0
Equity				
Equity attributable to equity holders of the Company	149,394.5	88.8	139,216.7	94.1
Non-controlling interests	18,870.2	11.2	8,753.3	5.9
Total equity	168,264.7	100.0	147,970.0	100.0
Total equity and liabilities	1,386,937.5		1,174,480.9	

6.2.2.1 Assets

Monetary Capital

Monetary capital primarily consists of cash, principal deposits, balances with central banks and clearing settlement funds and deposits that Cinda Securities holds on behalf of its customers in the securities brokerage business with banks and other financial institutions. As at December 31, 2016 and 2017, monetary capital amounted to RMB93,169.3 million and RMB75,940.3 million, respectively, representing a decrease of 18.5%, mainly due to the decrease in deposits with banks and financial institutions.

Financial Assets at Fair Value through Profit or Loss

The financial assets at fair value through profit or loss are divided into two categories, including held-for-trading financial assets and financial assets designated as at fair value through profit or loss.

The table below sets forth the major components of the Group's financial assets at fair value through profit or loss as at the dates indicated.

	As at December 31,			Change in
	2017	2016	Change	percentage
	(in millions of RMB)			(%)
Held-for-trading financial assets				
Listed investments				
Debt securities	12,703.0	14,483.5	(1,780.5)	(12.3)
Equity instruments	6,546.2	8,720.0	(2,173.8)	(24.9)
Funds	873.7	1,278.7	(405.0)	(31.7)
Unlisted investments				
Funds	5,242.6	3,175.8	2,066.8	65.1
Certificates of deposit	1,337.3	–	1,337.3	100.0
Derivative financial assets	381.3	820.8	(439.5)	(53.5)
Subtotal	27,084.0	28,478.8	(1,394.8)	(4.9)
Financial assets designated as at fair value through profit or loss				
Listed investments				
Corporate convertible bonds	309.2	293.2	16.0	5.5
Unlisted investments				
Distressed debt assets	148,790.1	94,458.6	54,331.5	57.5
Equity instruments	28,933.5	20,646.5	8,287.0	40.1
Funds	4,339.5	–	4,339.5	100.0
Wealth management products	1,878.3	3,984.9	(2,106.6)	(52.9)
Asset management plans	411.1	–	411.1	100.0
Embedded derivatives debts	404.3	171.7	232.6	135.5
Corporate convertible bonds	386.5	71.0	315.5	444.4
Assets-backed securities	54.6	58.0	(3.4)	(5.9)
Others	1,204.6	882.8	321.8	36.5
Subtotal	186,711.8	120,566.7	66,145.2	54.9
Total	213,795.9	149,045.5	64,750.4	43.4

As at December 31, 2016 and 2017, held-for-trading financial assets amounted to RMB28,478.8 million and RMB27,084.0 million, respectively, representing a decrease of 4.9%. The change was mainly due to the increase in non-listed funds and certificates of deposit, which was partially offset by the decrease in listed equity instrument and bonds; the increase in unlisted funds was mainly due to monetary fund invested by Cinda Securities; the decrease in listed equity instruments was mainly due to that Cinda Hong Kong disposed and transferred certain equity instruments for the year.

As at December 31, 2016 and 2017, financial assets designated as at fair value through profit or loss amounted to RMB120,566.7 million and RMB186,711.8 million, respectively, representing an increase of 54.9%, which was mainly because (1) the Acquisition-operation distressed debt assets increased by 57.5% from RMB94,458.6 million as at December 31, 2016 to RMB148,790.1 million as at December 31, 2017, mainly due to the fact that the Company focused on its core business and continued to increase its efforts in acquiring such assets; (2) equity instruments increased by 40.1% from RMB20,646.5 million as at December 31, 2016 to RMB28,933.5 million as at December 31, 2017, mainly due to the Company's additional investment in DES assets; (3) fund investment increased by RMB4,339.5 million during the year, mainly due to Additional private funds investment by Cinda Hong Kong; (4) wealth management products decreased by 52.9% from RMB3,984.9 million as at December 31, 2016 to RMB1,878.3 million as at December 31, 2017, mainly due to the disposal of wealth management products by Cinda Investment and Cinda Securities during the year.

Available-for-sale Financial Assets

The table below sets forth the principal components of available-for-sale financial assets as at the dates indicated.

	As at December 31,			Change in
	2017	2016	Change	percentage
	<i>(in millions of RMB)</i>			<i>(%)</i>
Debt securities	65,774.8	53,609.7	12,165.1	22.7
Equity instruments	29,602.4	40,362.4	(10,760.0)	(26.7)
Certificates of deposit	27,929.4	14,235.7	13,693.7	96.2
Funds	101,151.6	65,072.6	36,079.0	55.4
Trust products and rights to trust assets	20,613.0	16,486.8	4,126.2	25.0
Asset management plans	14,304.6	12,719.6	1,585.0	12.5
Wealth management products	11,820.0	6,500.0	5,320.0	81.8
Asset-backed securities	1,031.2	1,061.3	(30.1)	(2.8)
Others	955.8	2,447.7	(1,491.9)	(61.0)
Total	<u>273,182.7</u>	<u>212,495.9</u>	<u>60,686.8</u>	<u>28.6</u>

As at December 31, 2016 and 2017, available-for-sale financial assets amounted to RMB212,495.9 million and RMB273,182.7 million, respectively, representing an increase of 28.6%, mainly attributable to the increase in debt securities, certificates of deposit and fund investment.

Funds are the largest component of available-for-sale financial assets of the Group. As at December 31, 2016 and 2017, available-for-sale funds amounted to RMB65,072.6 million and RMB101,151.6 million, respectively, representing an increase of 55.4%. The increase was mainly due to the increase of private funds investment as a result of the Company complying with the marco trends of the supply-side-structural reforms, grasping the real economy actively, especially the business opportunities of the emerging industries.

Certificates of deposit increased during 2017. As at December 31, 2016 and 2017, the balance amounted to RMB14,235.7 million and RMB27,929.4 million, respectively, representing an increase of 96.2%, mainly due to the fact that the Group continued to improve its liquidity management, which boosted the profitability of short-term capital.

Debt securities are important component of available-for-sale financial assets of the Group. As at December 31, 2016 and 2017, available-for-sale debt securities amounted to RMB53,609.7 million and RMB65,774.8 million, respectively, representing an increase of 22.7%. In particular, the investment in government bonds increased significantly by 106.8%, mainly from NCB.

The table below sets forth the principal components of available-for-sale debt securities of the Group by type of issuers of the Group as at the dates indicated.

	As at December 31,			Change in percentage (%)
	2017 <i>(in millions of RMB)</i>	2016	Change	
Issuers				
Government bonds	29,257.9	14,148.5	15,109.4	106.8
Public sector and quasi-government bonds	8,212.7	10,258.9	(2,046.2)	(19.9)
Financial institution bonds	18,783.5	16,639.2	2,144.3	12.9
Corporate bonds	9,520.7	12,563.2	(3,042.5)	(24.2)
Total	<u>65,774.8</u>	<u>53,609.7</u>	<u>12,165.1</u>	<u>22.7</u>

The equity instruments decreased by 26.7% from RMB40,362.4 million as at December 31, 2016 to RMB29,602.4 million as at December 31, 2017, mainly due to part of the Company's DES Assets met the conditions of equity method in the year of 2017.

The table below sets forth the principal components of equity instruments in available-for-sale financial assets by type of investment and listing status as at the dates indicated.

	As at December 31,			Change in
	2017	2016	Change	percentage
	<i>(in millions of RMB)</i>			<i>(%)</i>
The Group				
Listed	4,741.1	6,303.2	(1,562.1)	(24.8)
Unlisted	<u>24,861.3</u>	<u>34,059.2</u>	<u>(9,197.9)</u>	<u>(27.0)</u>
Total	<u>29,602.4</u>	<u>40,362.4</u>	<u>(10,760.0)</u>	<u>(26.7)</u>
The Company				
Listed	2,109.4	2,673.1	(563.7)	(21.1)
Unlisted	<u>21,819.6</u>	<u>30,646.6</u>	<u>(8,827.0)</u>	<u>(28.8)</u>
Subtotal	<u>23,929.0</u>	<u>33,319.7</u>	<u>(9,390.7)</u>	<u>(28.2)</u>
DES Assets ⁽¹⁾	21,984.7	31,556.1	(9,571.4)	(30.3)
Financial equity investments by the Company ⁽²⁾	<u>1,944.3</u>	<u>1,763.6</u>	<u>180.7</u>	<u>10.2</u>
Subtotal	<u>23,929.0</u>	<u>33,319.7</u>	<u>(9,390.7)</u>	<u>(28.2)</u>

Notes:

- (1) Represents DES Assets held by the Company under the available-for-sale financial assets, which are recorded under the distressed asset management segment.
- (2) Represents equity assets held by the Company through its principal investment under the available-for-sale financial assets, which are recorded under the financial investment and asset management segment.

The Group assessed the impairment of the available-for-sale financial assets and accrued provisions for the impairment losses and recognized the impairment losses of such assets.

The table below sets forth the changes in the Group's allowance for impairment losses of available-for-sale financial assets as at the dates and for the years indicated.

	As at and for the year ended December 31, (in millions of RMB)
December 31, 2015	(2,900.6)
Provisions for impairment losses	(2,641.5)
Reversal of impairment losses	86.5
Disposal	509.1
December 31, 2016	(4,946.5)
Provisions for impairment losses	(5,288.8)
Reversal of impairment losses	46.2
Disposal	782.9
December 31, 2017	(9,406.2)

In 2016 and 2017, provisions for impairment losses of available-for-sale financial assets of the Group amounted to RMB2,641.5 million and RMB5,288.8 million, respectively. The increase in provisions was mainly due to (1) the Company strengthened its risk offset ability according to the changes in market credit risks and increased provisions for fixed income products of available-for-sale financial assets; (2) a few unlisted equity interests held by the Company showed signs of impairment for the year, and the impairment losses on assets were made in accordance with relevant accounting policies.

Financial Assets Classified as Receivables

The table below sets forth the principal components of the Group's the financial assets classified as receivables as at the dates indicated.

	As at December 31,			Change in
	2017	2016	Change	percentage
	(in millions of RMB)			(%)
Distressed debt assets				
Loans acquired from financial institutions	26,552.6	31,297.7	(4,745.1)	(15.2)
Accounts receivable acquired from non-financial institutions	197,404.9	160,142.8	37,262.1	23.3
Subtotal	223,957.5	191,440.5	32,517.0	17.0
Allowance for impairment losses	(8,793.8)	(6,993.5)	(1,800.3)	25.7
Net balance	215,163.7	184,447.0	30,716.7	16.7
Other financial assets classified as receivables				
Trust products	15,275.2	7,075.7	8,199.5	115.9
Asset management plans	2,942.5	3,832.5	(890.0)	(23.2)
Structured debt arrangements	386.0	1,232.0	(846.0)	(68.7)
Bonds	–	1,109.5	(1,109.5)	(100.0)
Other debt instruments	531.5	1,442.5	(911.0)	(63.2)
Subtotal	19,135.2	14,692.2	4,443.0	30.2
Allowance for impairment losses	(72.0)	(351.9)	279.9	(79.5)
Net balance	19,063.2	14,340.3	4,722.9	32.9
Total	234,226.9	198,787.2	35,439.7	17.8

As at December 31, 2016 and 2017, the balance of the financial assets classified as receivables amounted to RMB198,787.2 million and RMB234,226.9 million, respectively, representing an increase of 17.8%.

As at December 31, 2016 and 2017, the total distressed debt assets classified as receivables amounted to RMB191,440.5 million and RMB223,957.5 million, respectively, representing an increase of 17.0%.

As at December 31, 2016 and 2017, the impaired distressed debt assets classified as receivables of the Company were RMB3,415.8 million and RMB4,221.0 million, accounting for 1.78% and 1.88% of the total distressed debt assets classified as receivables, respectively. As at December 31, 2016 and 2017, the allowance for impairment losses on distressed debt assets classified as receivables of the Company was RMB7,009.9 million and RMB8,802.0 million, the coverage ratio of the impaired distressed debt assets classified as receivables was 205.2% and 208.5%, and the coverage ratio of allowance to total distressed debt assets classified as receivables was 3.66% and 3.93%, respectively.

Loans and Advances to Customers

The table below sets forth the principal components of the Group's loans and advances to customers as at the dates indicated.

	As at December 31,			Change in percentage (%)
	2017 <i>(in millions of RMB)</i>	2016	Change	
By business type				
Corporate and personal loans and advances	265,755.1	249,963.8	15,791.3	6.3
Loans to margin clients	7,708.4	7,655.9	52.5	0.7
Finance lease receivables	45,571.9	42,847.7	2,724.2	6.4
Subtotal	319,035.5	300,467.4	18,568.1	6.2
By security type				
Mortgaged	86,609.6	96,415.6	(9,806.0)	(10.2)
Pledged	71,976.5	52,906.3	19,070.2	36.0
Guaranteed	41,002.6	48,178.5	(7,175.9)	(14.9)
Unsecured	119,446.7	102,967.0	16,479.7	16.0
Subtotal	319,035.5	300,467.4	18,568.1	6.2
Allowance for impairment losses	(6,917.9)	(5,530.8)	(1,387.1)	25.1
Net loans and advances to customers	312,117.5	294,936.6	17,180.9	5.8

As at December 31, 2016 and 2017, the net balance of loans and advances to customers amounted to RMB294,936.6 million and RMB312,117.5 million, respectively, representing an increase of 5.8%, mainly due to the significant enhancement of synergy effect of the Group after the consolidation of NCB, resulting in the continuous increase in the scale of loans and advances to customers of NCB.

The table below sets forth the principal components of the Group's loans and advances to customer type as at the dates indicated.

	As at December 31,			Change in
	2017	2016	Change	percentage
	(in millions of RMB)			(%)
Corporate loans and advances				
Loans and advances	230,037.6	213,346.6	16,691.0	7.8
Discounted bills	949.2	2,419.0	(1,469.8)	(60.8)
Subtotal	230,986.8	215,765.6	15,221.2	7.1
Personal loans and advances				
Mortgage loans	24,699.2	24,840.1	(140.9)	(0.6)
Personal consumption loans	10,069.1	9,358.1	711.0	7.6
Subtotal	34,768.3	34,198.2	570.1	1.7
Total loans and advances	265,755.1	249,963.8	15,791.3	6.3

The net amount of finance leases receivables (before allowance for impairment losses) increased by 6.4% from RMB42,847.7 million as at December 31, 2016 to RMB45,571.9 million as at December 31, 2017, growing steadily.

	As at December 31,			Change in
	2017	2016	Change	percentage
	(in millions of RMB)			(%)
Gross amount of finance leases receivables	49,770.0	46,858.1	2,911.9	6.2
Within 1 year (inclusive)	22,354.6	18,426.8	3,927.8	21.3
1 year to 5 years (inclusive)	26,187.2	27,453.2	(1,266.0)	(4.6)
Over 5 years	1,228.2	978.1	250.1	25.6
Less: Unearned finance income	4,198.1	4,010.4	187.7	4.7
Net amount of finance leases receivables	45,571.9	42,847.7	2,724.2	6.4
Allowance for impairment losses	(1,373.1)	(1,216.0)	(157.1)	12.9
Carrying amount of finance lease receivables	44,198.8	41,631.6	2,567.2	6.2

6.2.2.2 Liabilities

Liabilities of the Group mainly consist of borrowings, due to customers and bonds issued, accounting for 47.6%, 18.6% and 16.9% of the total liabilities of the Group as at December 31, 2017, respectively.

The table below sets forth the components of interest-bearing liabilities of the Group as at the dates indicated.

	As at December 31,			
	2017		2016	
	Amount	Percentage (%) (in millions of RMB)	Amount	Percentage (%)
Borrowings	580,352.1	54.4	450,514.8	51.9
Due to customers	226,220.8	21.2	204,629.0	23.6
Deposits from banks and financial institutions	19,259.3	1.8	13,304.8	1.5
Accounts payable to brokerage clients	12,393.8	1.2	16,272.1	1.9
Financial assets sold under repurchase agreements	6,630.3	0.6	7,872.2	0.9
Placements from banks and financial institutions	16,431.6	1.5	23,581.2	2.7
Bonds issued	206,482.6	19.3	152,497.6	17.6
Total	1,067,770.5	100.0	868,671.7	100.0

Borrowings

As at December 31, 2016 and 2017, the balance of borrowings of the Group amounted to RMB450,514.8 million and RMB580,352.1 million, respectively. The increase in borrowings was mainly because (1) the Company increased its borrowings to meet the requirement of development of distressed asset management business and the majority of the borrowings were long-term borrowings; (2) the financing demand increased due to the growing investment amount from Cinda Investment.

Due to customers

As at December 31, 2016 and 2017, the balance of due to customers of the Group amounted to RMB204,629.0 million and RMB226,220.8 million, respectively. Due to customers of the Group came from NCB.

The table below sets forth the components of the due to customers of the Group as at the dates indicated.

	As at December 31,	
	2017	2016
	<i>(in millions of RMB)</i>	
Demand Deposits	87,805.9	78,029.0
Corporate	48,909.3	39,055.8
Individual	38,896.6	38,973.2
Time Deposits	128,327.4	117,195.6
Corporate	78,804.6	72,207.7
Individual	49,522.8	44,987.9
Guarantee Deposits	10,087.5	9,404.5
Total	226,220.8	204,629.0

Bonds Issued

The table below sets forth the components of the bonds issued by the Group as at the dates indicated.

	As at December 31,	
	2017	2016
	<i>(in millions of RMB)</i>	
Subordinated Bonds	12,530.4	6,281.4
Tier-2 Capital Bonds	10,176.1	10,170.4
HKD Bonds	74.8	80.7
Corporate Bonds	26,427.3	23,816.0
Financial Bonds	86,096.5	67,818.6
USD Guaranteed Senior Notes	56,038.3	34,760.1
Beneficiary Certificates	2,034.8	3,006.3
Certificates of Deposit	2,567.1	486.8
Mid-term Notes	3,067.9	3,076.3
Capital Supplement Bonds	3,001.0	3,001.0
Assets-backed Securities	4,468.4	—
Total	206,482.6	152,497.6

As at December 31, 2016 and 2017, the balance of bonds issued by the Group amounted to RMB152,497.6 million and RMB206,482.6 million, respectively. Bonds issued in 2017 further increased mainly because the Group actively refined the structure of assets and liabilities by carrying out direct financing with focus on bonds while reinforcing the interbank financing business. Bonds issued in 2017 mainly consist of (1) subordinated bonds of RMB6.0 billion and corporate bonds of RMB2.5 billion issued by Cinda Securities; (2) financial bonds of RMB30.0 billion issued by the Company; (3) guaranteed senior notes of USD3.545 billion issued by a subsidiary of Cinda Hong Kong. For details of issuance of securities of the Group during the Reporting Period, please see “Report of the Board of Directors” – “Issuance of Securities”.

6.2.3 Contingent Liabilities

Due to the nature of our business, the Company and its subsidiaries are involved in certain legal proceedings in the ordinary course of business, including litigation and arbitration. We make provision, from time to time, for the probable losses with respect to those claims when our management can reasonably estimate the outcome of the proceedings, in light of the legal advice we have received. We do not make provision for pending litigation when the outcome of the litigation cannot be reasonably estimated or when our management believes that the probability of loss is remote or that any resulting liabilities will not have a material adverse effect on our financial condition or operating results.

As at December 31, 2016 and 2017, the claim amounts of pending litigation of which the Group was defendant were RMB1,608.4 million and RMB1,904.8 million and of which the Company was defendant were RMB416.9 million and RMB546.0 million for the Company respectively, and provisions of RMB90.5 million and RMB128.7 million for the Group were made based on court judgments or the advice of legal counsel, respectively. The Directors believe that the final result of these lawsuits will not have material impacts on the financial position or operations of the Group and the Company.

6.2.4 Difference between Financial Statements Prepared under the PRC GAAP and IFRS

There is no difference of net profit and shareholders’ equity for the reporting period between consolidated financial statements prepared by the Company under the PRC GAAP and IFRS.

6.3 Business Overview

The principal business segments of our Group include (1) distressed asset management business, including distressed debt asset management, management of DES Assets, and restructuring, custody, liquidation of distressed entities and special situation business; (2) financial investment and asset management business, such as principal investment, asset management and the consulting and financial advisory services; and (3) financial services business such as banking, securities, futures, fund management, trusts, financial leasing and insurance.

The table below sets out the total income of each of the business segments for the years indicated.

	For the year ended December 31,			
	2017		2016	
	Total income <i>(in millions of RMB)</i>	% of total	Total income <i>(in millions of RMB)</i>	% of total
Distressed asset management	45,269.2	37.7	32,069.3	35.0
Financial Investment and Asset Management	33,708.2	28.1	27,302.9	29.8
Financial Services	42,841.5	35.7	34,165.1	37.3
Elimination	(1,784.4)	(1.5)	(1,880.1)	(2.1)
Total	<u>120,034.6</u>	<u>100.0</u>	<u>91,657.2</u>	<u>100.0</u>

The table below sets out the profit before tax of each of the business segments for the years indicated.

	For the year ended December 31,			
	2017		2016	
	Profit before tax <i>(in millions of RMB)</i>	% of total	Profit before tax <i>(in millions of RMB)</i>	% of total
Distressed asset management	15,075.8	57.7	14,424.8	66.3
Financial Investment and Asset Management	9,041.7	34.6	6,308.9	29.0
Financial Services	2,366.6	9.1	2,106.3	9.7
Elimination	(353.3)	(1.4)	(1,074.5)	(4.9)
Total	<u>26,130.8</u>	<u>100.0</u>	<u>21,765.5</u>	<u>100.0</u>

In 2017, the income from business segments of distressed asset management, financial investment and asset management and financial services represented 37.7%, 28.1% and 35.7% of the total income of the Group, respectively, and these segments' profit before tax represented 57.7%, 34.6% and 9.1% of the total profit before tax of the Group, respectively.

6.3.1 Distressed asset management

The scope of the Group's distressed asset management business includes (1) the management and disposal of distressed debt assets acquired from financial institutions and non-financial enterprises, (2) the management and disposal of DES Assets, and (3) restructuring, custody, liquidation and special situation business related to distressed assets and distressed entities through collaborative and integrated solutions within the Group.

Distressed asset management is the core business of the Group and is the primary source of income and profit. In 2016 and 2017, income from the distressed asset management business accounted for 35.0% and 37.7% of the total income of the Group, respectively, and profit before tax from the distressed asset management business accounted for 66.3% and 57.7% of the total profit before tax of the Group, respectively.

The table below sets forth the key financial indicators of distressed asset management business of the Company as at the dates and for the years indicated.

	As at and for the year ended December 31,	
	2017	2016
	<i>(in millions of RMB)</i>	
Acquisition and disposal of distressed debt assets		
Net balance of distressed debt assets ⁽¹⁾	363,984.9	278,237.6
Acquisition cost of distressed debt assets	202,053.5	206,879.5
Income from distressed debt assets ⁽²⁾	26,569.5	21,493.4
Management and disposal of DES Assets		
Book value of DES Assets	62,381.0	40,479.6
Dividend income from DES Assets	203.3	1,571.1
Acquisition cost of investment gains from DES Assets (net of allowance for impairment, if any)	13,650.3	1,843.9
Investment income from the equity of DES Assets ⁽³⁾	14,128.9	4,580.8

Notes:

- (1) Equivalent to the sum of the Company's "distressed debt assets designated as fair value through profit or loss", and "distressed debt assets classified as receivables", as appeared in the consolidated financial statements.
- (2) Equivalent to the sum of the Company's "fair value changes on distressed debt assets", and "income from distressed debt assets classified as receivables", as appeared in the consolidated financial statements.
- (3) Dividend income from DES Assets is not included in the "Business Overview" section of this report.

6.3.1.1 Management of Distressed Debt Distressed Assets

The Source of Acquisition of the Distressed debt Assets

The Company classifies the distressed debt assets into two main categories depending on the source of acquisition of the distressed assets: (1) non-performing loans and other distressed debt assets of banks and distressed debt assets of non-bank financial institutions (“FI Distressed Assets”) and (2) receivables of non-financial enterprises (“NFE Distressed Assets”).

The table below sets forth the key financial indicators of the Company’s FI Distressed Assets and NFE Distressed Assets as at the dates and for the years indicated.

	As at and for the year ended December 31,			
	2017		2016	
	Amount (in millions of RMB)	% of total	Amount (in millions of RMB)	% of total
Net balance of distressed debt assets⁽¹⁾				
FI Distressed Assets	168,265.2	46.2	117,676.4	42.3
NFE Distressed Assets	195,719.7	53.8	160,561.2	57.7
Total	363,984.9	100.0	278,237.6	100.0
Acquisition cost of distressed debt assets⁽²⁾				
FI Distressed Assets	93,259.7	46.2	90,563.4	43.8
NFE Distressed Assets	108,793.8	53.8	116,316.1	56.2
Total	202,053.5	100.0	206,879.5	100.0
Income from distressed debt assets⁽³⁾				
FI Distressed Assets	11,752.1	44.2	9,900.7	46.1
NFE Distressed Assets	14,817.4	55.8	11,592.7	53.9
	26,569.5	100.0	21,493.4	100.0

Notes:

- (1) Equivalent to the Company’s “distressed debt assets designated as at fair value through profit or loss”, and “distressed debt assets classified as receivables”, as appeared in the consolidated financial statements.
- (2) “Acquisition cost of distressed debt assets” represents the carrying amounts of distressed debt assets acquired during the years indicated.
- (3) Equivalent to the Company’s “fair value changes on distressed debt assets”, and “income from distressed debt assets classified as receivables” as appeared in the consolidated financial statements.

FI Distressed Assets

The FI Distressed Assets acquired by the Company primarily include non-performing loans and other distressed debt assets from banks, including large commercial banks, joint-stock commercial banks and city and rural commercial banks. We also acquired distressed debt assets from non-bank financial institutions.

The table below sets forth a breakdown of the FI Distressed Assets of the Company in terms of acquisition costs among different types of banks and non-bank financial institutions for the years indicated.

	For the year ended December 31,			
	2017		2016	
	Amount (in millions of RMB)	% of total	Amount (in millions of RMB)	% of total
Large commercial banks	43,572.1	46.7	34,073.3	37.6
Joint-stock commercial banks	23,620.1	25.3	37,680.2	41.6
City and rural commercial banks	10,505.5	11.3	3,890.0	4.3
Other banks ⁽¹⁾	9,508.8	10.2	1,187.3	1.3
Non-bank financial institutions ⁽²⁾	6,053.2	6.5	13,732.6	15.2
Total	93,259.7	100.0	90,563.4	100.0

Note:

- (1) Includes policy banks, the Postal Savings Bank of China and foreign banks.
- (2) Mainly includes non-banking financial institutions such as finance companies.

NFE Distressed Assets

The NFE Distressed Assets acquired by the Company are primarily distressed assets which were held by non-financial enterprises or entrusted to manage by financial institutions as intermediaries. The distressed assets mainly included accounts receivable, other receivables, corporate bond, entrustment loans and trust loans.

The Business Model of the Distressed debt Assets¹

The Company mainly employs two business models in distressed debt asset management, which are (1) acquisition-operation model; and (2) restructuring model.

The table below sets forth details on the business model of acquisition-operation distressed assets and restructured distressed assets were used by the Company as at the dates and for the years indicated.

	As at and for the year ended December 31,			
	2017		2016	
	Amount (in millions of RMB)	% of total	Amount (in millions of RMB)	% of total
Net balance of distressed debt assets				
Acquisition-operation distressed assets ⁽¹⁾	148,802.0	40.9	93,763.8	33.7
Restructured distressed assets ⁽²⁾	215,182.9	59.1	184,473.8	66.3
Total	363,984.9	100.0	278,237.6	100.0
Acquisition cost of distressed debt assets				
Acquisition-operation distressed assets	86,690.9	42.9	72,654.7	35.1
Restructured distressed assets	115,362.6	57.1	134,224.8	64.9
Total	202,053.5	100.0	206,879.5	100.0
Income from distressed debt assets				
Acquisition-operation distressed assets ⁽³⁾	8,796.4	33.1	5,836.4	27.2
Restructured distressed assets ⁽⁴⁾	17,773.0	66.9	15,657.0	72.8
	26,569.5	100.0	21,493.4	100.0

- (1) Equivalent to the Company's "distressed debt assets designated as at fair value through profit or loss" as appeared in the consolidated financial statements.
- (2) Equivalent to the Company's "distressed assets classified as receivables" net of any identified impairment losses appeared in the consolidated financial statements.
- (3) Equivalent to the Company's realized and unrealized "fair value changes on distressed debt assets", as appeared in the consolidated financial statements.
- (4) Equivalent to the Company's "income from distressed debt assets classified as receivables" as appeared in the consolidated financial statements.

¹ In order to help investors to get a better understanding of the operation nature and business characteristics of our distressed asset management business, starting from 2017 annual report, the Company revised the term from "Traditional Distressed Assets" to "Acquisition-operation Distressed Assets".

Acquisition-operation Distressed Assets

The primary source of the Company's Acquisition-operation Distressed Assets is banks. The Company acquires distressed debt assets from banks through competitive biddings, public auctions, blind auctions or negotiated acquisitions. Based on the characteristics of the distressed debt assets, the Company established corresponding management strategies and maximize the value of assets to achieve cash recovery by various disposal methods, including debt restructuring, debt-to-equity swap, receipt of equity in satisfaction of debt, asset swap, litigation recovery, sale, etc.

The table below sets forth certain of the management of Acquisition-operation Distressed Assets of the Company as at the dates and for the years indicated.

	As at and for the year ended December 31,	
	2017	2016
	<i>(in millions of RMB, except for percentages)</i>	
Net balance of Acquisition-operation Distressed Assets	148,802.0	93,763.8
Acquisition cost of Acquisition-operation Distressed Assets	86,690.9	72,654.7
Carrying amount of disposed Assets ⁽¹⁾	31,355.7	61,860.7
Unrealized fair value changes	(101.8)	142.4
Net income from Acquisition-operation Distressed Assets	8,796.4	5,836.4
Internal rate of return ⁽²⁾ (%)	17.8	19.2

Notes:

- (1) Represents the amounts of Acquisition-operation Distressed Assets disposed in a given period.
- (2) The internal rate of return, or IRR, is the annualized implied discount rate calculated from a series of cash flows. It is the return that equates the present value of all capital invested in the Acquisition-operation Distressed Assets to the present value of all returns of capital, or the discount rate that will provide a net present value of all cash flows equal to zero.

In 2017, the Company continued to increase its efforts in the distressed assets market development. By taking the pioneer advantage in terms of abundant assets reserve, we maintained the leading position. First, the Company consolidated the good cooperation with banks, utilized due diligence ability, which increased the balance of the acquisition-operation distressed assets. Second, it has been actively developing the non-bank financial institution market and continuously searching for business opportunities to expand business scope. Third, it improved the efficiency of management and disposal, enhanced to apply multiple channels, and achieved a beneficial interaction between acquisition and disposal, which made the value of major projects increased. The disposal income for 2017 reached a new high.

Restructured Distressed Assets

The primary sources of our Restructured Distressed Assets are non-financial enterprises, as well as banks and non-bank financial institutions. When acquiring debts, the company would enter into a tripartite agreement with creditor and debtor. Concurrent to the debts acquisition, we, the debtor and its related parties also entered into a restructuring agreement that assisted enterprises to activate the stock assets and achieved the goal of recovering the debt of the Company and achieving target gains through a series of arrangement of reorganization including the repayment amount, repayment method, repayment schedule, and collateral and guarantee agreements.

The table below sets forth certain details of the management of our Company's Restructured Distressed Assets as at the dates and for the years indicated.

	As at and for the year ended	
	December 31,	
	2017	2016
	<i>(in millions of RMB, except for percentages)</i>	
Net balance of Restructured Distressed Assets	215,182.9	184,473.8
Acquisition cost of Restructured Distressed Assets	115,362.6	134,224.8
Income from Restructured Distressed Assets	17,773.0	15,657.0
Annualized return on monthly average balance ⁽¹⁾ (%)	8.6	9.9
Balance of impaired Restructured Distressed Assets	4,221.0	3,415.8
Impaired Restructured Distressed Assets ratio ⁽²⁾ (%)	1.88	1.78
Allowance for impairment losses	8,802.0	7,009.9
Impaired Restructured Distressed Assets coverage ratio ⁽³⁾ (%)	208.5	205.2

Notes:

- (1) Equals income from Restructured Distressed Assets divided by monthly average balance of Restructured Distressed Assets.
- (2) Equals impaired Restructured Distressed Assets divided by gross balance of Restructured Distressed Assets.
- (3) Balance of allowance for impairment losses divided by balance of impaired Restructured Distressed Assets.

In 2017, during the process of restructured distressed assets management, the Company focused on the core positioning of “serving the real economy and preventing and controlling financial risks”, actively responded to changes in the market environment, and seized the business opportunities for resource integration of the structural reforms on the supply side and steadily promoted sustainable and healthy development of the business. First, the Company deepened the clients-oriented philosophy of the business, increased the efforts on target clients and market expansion. While maintaining a steady increase in the amount of assets, the company is regarding the restructured business as a breakthrough in developing group synergy, which had preliminary effect. Second, the Company continuously improved assets allocation and optimized the asset structure. Among them, the concentration of the real estate industry steadily declined, and the regional distribution was mainly in the first and second tier cities. Third, the Company continued to strengthen risk management throughout the whole process and with enhanced security for the overall quality of assets and improve the quality of newly acquired assets. Fourth, the Company followed and served the national strategy, to support the integration strategy of Beijing-Tianjin-Hebei.

6.3.1.2 DES Assets Management

The Company has obtained a significant amount of DES Assets primarily through debt-to-equity swap, receipt of equity in satisfaction of debt and other distressed assets related transactions. The DES Assets held by us can be classified as unlisted shares of DES Companies (“Unlisted DES Assets”) and listed shares of DES Companies (“Listed DES Assets”). As at December 31, 2016 and 2017, we held Unlisted DES Assets in 152 and 153 DES Companies, with total book value of RMB29,410.4 million and RMB46,117.1 million, respectively and Listed DES Assets in 13 and 17 DES Companies, with total book value of RMB11,069.2 million and RMB16,263.9 million, respectively. Among them, as at December 31, 2017, the book value of incremental unlisted DES assets was RMB7,749.5 million and the book value of incremental listed DES assets was RMB80.6 million.

The table below sets forth details of the Unlisted DES Assets and Listed DES Assets of the Company as at the dates indicated.

	As at December 31,	
	2017	2016
	<i>(in millions of RMB, except number of DES Companies)</i>	
Number of DES Companies	170	165
Unlisted	153	152
Listed	17	13
Book value	62,381.0	40,479.6
Unlisted	46,117.1	29,410.4
Listed	16,263.9	11,069.2

DES Assets investment Gain

In 2016 and 2017, the realized investment gains of the Company (excluding dividend income) in 20 and 27 DES Companies, respectively, with total acquisition cost (net of allowance for impairment, if any) of RMB1,843.9 million and RMB13,650.3 million, respectively, realizing net gain of RMB4,580.8 million and RMB14,128.9 million, respectively, and the dividend income amounted to RMB1,571.1 million and RMB203.3 million, respectively. In 2017, the multiple of DES Assets investment income¹ of by the Company was 2.04, and 2.51 for the unlisted ones.

The table below sets forth details of the investment gains of DES Assets by the Company for the years indicated.

	As at and for the year ended	
	December 31,	
	2017	2016
	<i>(in millions of RMB, except number of DES Companies)</i>	
Number of DES Companies with investment gains	27	20
Acquisition cost of the realized investment gains (net of allowance for impairment, if any)	13,650.3	1,843.9
Net gain on investment of DES Assets	14,128.9	4,580.8
Dividend income	203.3	1,571.1

In 2017, the Company seized the opportunities in the national supply-side structural reforms and in capital market, operated several major DES projects deeply and efficiently, and enhanced the value of DES assets. Meanwhile, the Company played its advantages to further develop the market-oriented business and implemented several projects successfully in 2017. The total amount of such projects were RMB10.53 billion which achieved satisfied results, and built up professional brand identification.

¹. The formula of the exit multiple of DES Assets investments: net gain + realized investment gains (net of provisions for impairment, if any)/acquisition cost of DES Assets with realized investment gains (net of provisions for impairment, if any)

6.3.1.3 Restructuring, custody and liquidation services for distressed entities and special situation business

The Group provides restructuring, custody and liquidation and entrusted management services to distressed assets and entities by employing comprehensive operating model under the engagement of government departments, enterprises and financial institutions. Among them, the custody and liquidation and restructuring business was mainly conducted through Zhongrun Development. As at December 31, 2016 and 2017, the asset balance of distressed assets of Zhongrun Development amounted RMB1,196.1 million and RMB497.8 million, respectively. The entrusted management business was mainly conducted by the Company. As at December 31, 2016 and 2017, the asset balance of entrusted distressed assets amounted to RMB35.71 billion and RMB15.15 billion, respectively.

With the in-depth development of the distressed asset management business, the Group seized the opportunities occurred during the process of supply-side structural reform, relied on our solid client base, constructed strategic planning to conduct the special situation business through various means of management, mainly including: (1) reallocating factors of distressed entities such as funds, assets, talents, technologies and management models, in order to help entities to get rid of business and financial difficulties and restore their production and management capabilities and debt repayment ability, therefore providing them with substantial restructuring service which helped to recreate and enhance their corporate values; (2) making additional investment on distressed assets, in order to explore and enhance the existing value of assets; (3) participating in the strategic clients integrated management business such as the mixed reform of state-owned enterprises and the separation of secondary business from principal business. The special situation business was mainly led and conducted by the Company. As at December 31, 2017, the asset balance of the Group involved in the substantial restructuring, additional investment and strategic client integrated management business was RMB24.34 billion.

6.3.2 Financial Investment and Asset Management

The financial investment and asset management business is conducted by the Company and its subsidiaries including Cinda Investment, Cinda Hong Kong, Zhongrun Development and Cinda Capital, which primarily includes principal investment, asset management, and other businesses.

In 2016 and 2017, the income from financial investment and asset management business accounted for 29.8% and 28.1% of the total income, respectively, and the profit before tax accounted for 29.0% and 34.6% of the profit before tax of the Group, respectively.

In 2017, in terms of principal investment, the Group continued to play the core strengths of distressed assets business, focusing on distressed entities and distressed assets. With the main purposes of restructuring, integration and value enhancement, we built investment brand with Cinda's features, which focused on business opportunities in emerging industries. By adjusting the allocation of medium-and-long-term equity assets properly, the structure of assets and revenue of the Group are optimized. In terms of asset management business, we emphasized on integrating the resources of the Group to build the asset management model under the synergy of the Group.

6.3.2.1 Principal Investment

Our Group's principal investment business primarily includes (1) equity investments related to the distressed entities and distressed assets business; (2) real estate investment and development related to the distressed assets business; (3) other investments, including investments in funds, debt securities, trust products and wealth management products. As at December 31, 2016 and 2017, balance of the principal investment of the Group totalled RMB139.13 billion and RMB193.14 billion, respectively. In 2016 and 2017, income from the principal investment of the Group, primarily including investment income, net income from investment properties and hotel operation revenue under the financial investment and asset management business segment, totalled RMB12.26 billion and RMB17.06 billion, respectively.

The table below sets forth details of the principal investment of the Group as at the dates indicated:

	As at December 31,			
	2017		2016	
	Amount (in millions of RMB)	% of total	Amount (in millions of RMB)	% of total
Balance of principal investments				
– by investment type				
Equity investments ⁽¹⁾	40,075.0	20.7	31,762.6	22.8
Real estate investments ⁽²⁾	2,307.5	1.2	1,720.9	1.2
Fund investments	105,070.4	54.4	72,869.0	52.5
Debt securities investments	4,587.6	2.4	3,188.3	2.3
Trust products investments	14,686.5	7.6	9,524.6	6.8
Wealth management products investments	1,806.1	0.9	4,062.2	2.9
Other investments ⁽³⁾	24,606.1	12.8	16,003.8	11.5
Total	193,139.2	100.0	139,131.4	100.0
Balance of principal investments				
– by investments entities				
The Company	120,066.2	62.3	91,342.1	65.7
Cinda Investment	35,626.8	18.4	23,391.7	16.8
Cinda Hong Kong	43,433.6	22.5	30,203.9	21.7
Zhongrun Development	843.6	0.4	1,129.7	0.8
(Elimination)	(6,831.0)	(3.6)	(6,936.0)	(5.0)
Total	193,139.2	100.0	139,131.4	100.0

Notes:

- (1) Equivalent to equity instruments classified under “financial assets at fair value through profit or loss”, “available-for-sale financial assets” and “interests in associates” as appeared in the consolidated financial statements attributable to financial investment and asset management business segment.
- (2) Equivalent to “investment properties” as appeared in the consolidated financial statements.
- (3) Other investments include primarily investment in asset management plan and large interbank deposits.

Equity Investments

The Company, Cinda Investment, Cinda Hong Kong and Zhongrun Development are all engaged in equity investments related to distressed assets, although with different focuses. The Company mainly engaged in financial equity investment business which is not for the purpose of controlling. Relying on listed companies and capital market. We actively explored the opportunities of supply-side structural reforms, focused on developing emerging industries including big cultures, big health, big consumption, new energy and new material etc. Cinda Investment mainly focused on the “cutting overcapacity, reducing excess inventory, dereveraging, lowering costs and strengthening areas of weakness”, the separation of main and auxiliary companies, the reform of mixed ownership, and the implementation of equity investment in domestic mergers and acquisitions in the structural reform on the supply side of state-owned enterprises. Cinda Hong Kong mainly engaged in distressed assets or distressed entities that involve distressed assets of cross-border transaction, the restructuring or liquidation projects of distressed entities and the investment and financing projects including cross-border industrial restructuring and mergers and acquisitions coordinated with the Group.

The Company is engaged in financial investments and receives dividend income and investment income from the disposal of its equity holdings. As at December 31, 2016 and 2017, the balance of the Company’s direct equity investments classified under financial assets at fair value through profit or loss, available-for-sale financial assets and interests in associates joint ventures in the consolidated financial statements, were RMB1.80 billion and RMB2.61 billion, respectively.

Cinda Investment serves as the Group’s professional investment platform. As at December 31, 2016 and 2017, the balance of Cinda Investment’s equity investments classified under financial assets at fair value through profit or loss, available-for-sale financial assets and interests in associates joint ventures in the consolidated financial statements were RMB5.06 billion and RMB8.59 billion, respectively.

Cinda Hong Kong and its subsidiaries serve as the Group’s business platform outside of mainland China. As at December 31, 2016 and 2017, the balance of Cinda Hong Kong’s equity investments classified under financial assets at fair value through profit or loss, available for sale financial assets and interests in associates and joint ventures in the consolidated financial statements were RMB24.41 billion and RMB28.91 billion, respectively.

Real Estate Investment and Development

Cinda Investment, together with its certain subsidiaries, serves as the Group's primary platform for real estate investment and development. Cinda Real Estate, one of the subsidiaries controlled by Cinda Investment which is principally engaged in property development, is the operation platform for property development business of the Group. As at December 31, 2016 and 2017, the balance of our investment properties amounted to RMB1.72 billion and RMB2.31 billion, respectively. In 2016 and 2017, the real estate development business generated real estate sales revenue of RMB10.92 billion and RMB14.36 billion, respectively.

Funds Investments

The Group conducts funds investments through the Company, Cinda Investment and Cinda Hong Kong etc. As at December 31, 2016 and 2017, the balance of the funds investments was RMB72.87 billion and RMB105.07 billion, respectively. Among them, the remaining balance of the investments through private funds of the Company was RMB57.97 billion and RMB94.16 billion, respectively.

Debt Securities, Trusts, Wealth Management Products and Other Investments

The Group invested in debt securities directly or indirectly. As at December 31, 2016 and 2017, the balance of the debt securities investments was RMB3.19 billion and RMB4.59 billion, respectively.

The Group invested in wealth management products from banks and securities companies, as well as trust products, to earn investment income. As at December 31, 2016 and 2017, the balance of the investments in wealth management and trust products totalled RMB13.59 billion and RMB16.49 billion, respectively.

The Group invested in wealth management products from certificates of deposit and asset management plan products, to earn investment income. As at December 31, 2016 and 2017, the balance of the investments in certificates of deposit and asset management plan products totalled RMB14.12 billion and RMB20.10 billion, respectively.

6.3.2.2 Asset Management Business

The asset management business consists of (1) the private fund business included in the financial investment and asset management segment; and (2) the securities investment management, trust and mutual fund businesses included in the financial services segment. In 2017, the private fund business of the Group developed steadily. We built up a Cinda's specialised assets management business brand through constructing the asset management model under the synergistic platforms with subsidiaries of the Group.

As at December 31, 2017, we have established 127 private funds that raised third-party capital and for which our subsidiaries act as a general partner (or manager).

The table below sets forth details of the private fund business of the Group as at the dates and for the years indicated.

	As at and for the year ended	
	December 31,	
	2017	2016
Number of funds ⁽¹⁾	127	137
Total committed capital (AUM) (in billions of RMB)	359.5	267.3
Accumulated total paid-in capital (in billions of RMB)	187.8	179.5
Accumulated paid-in capital from third parties (in billions of RMB) ⁽²⁾	67.5	72.9
Accumulated number of projects invested	247	289
Fund management income for the year (in millions of RMB)	410.4	447.0

Notes:

(1) Including funds that raised third-party capital and in which our subsidiaries act as a general partner (or manager).

(2) Represents paid-in capital contributed by investors not affiliated with Group.

6.3.2.3 Other Businesses

In 2016 and 2017 the fees and commission income from consulting and advisory services by the Company, Cinda Investment and Cinda Hong Kong totalled RMB420 million and RMB190 million, respectively.

6.3.3 Financial Services

The Group has focused on the development of financial services business which can provide services and support for the development of distressed assets and asset management. Taking the merger of NCB as an opportunity, it further enriched and improved the synergistic and diversified financial services platform including banking, securities, futures, fund management, trusts, financial leasing and insurance. The Group is committed to providing customized financial services integrated solutions to customers.

In 2016 and 2017, income from financial services represented 37.3% and 35.7%, of the total income of the Group, respectively, while the profit before tax from financial services accounted for 9.7% and 9.1%, of the total profit before tax of the Group, respectively.

The table below sets forth the financial data of the financial service subsidiaries of the Group as at the dates and for the years indicated.

(Version of Ernst & Young)As at and for the year ended December 31,

2017

2016

Profit

Profit

	Income	Profit before tax	Total assets	Net assets	Income	Profit before tax	Total assets	Net assets

(in millions of RMB)

NCB	11,363.3	3,202.2	363,102.0	43,048.1	8,675.5	2,773.2	312,723.0	34,598.1
Securities, Futures and Fund Management ⁽¹⁾	3,934.6	173.3	55,114.4	9,699.2	4,095.2	533.1	57,081.1	9,610.4
Jingu Trust	847.7	376.3	4,106.6	3,845.3	501.2	219.7	4,742.0	3,564.3
Cinda Leasing	2,460.9	670.5	48,124.8	7,186.3	2,461.0	860.8	45,383.7	6,669.5
Happy Life	23,576.3	48.9	72,853.9	8,233.6	18,823.2	39.4	67,036.7	2,517.6

Note:

(1) Includes Cinda Securities, Cinda Futures, First State Cinda Fund and Cinda International.

6.3.3.1 Banking Business

The Group conducts banking business in Hong Kong and Mainland China through NCB (mainly including NCB Hong Kong and NCB China).

The Progress of NCB's Consolidation Work

2017 is the first complete year after NCB has joined the Group. During the year, NCB actively adjusted its business strategy and strived to implement strategic transformation. As the key component of the overall strategic layout of the Group and the core platform of the financial services sector, it leveraged the Group's advantages of asset management, multi-license platforms and rich customer resources to expand its customer base rapidly, develop featured products, continue efficient integration, expand its business scale, and accelerate specialization and characteristic of business. Meanwhile, relying on collaborative operations, efficient risk management and non-performing asset management capabilities, featuring trade finance and cross-border financial services, and focusing on corporate financial services and interbank business, we committed to developing NCB into a commercial bank of higher competitiveness in Hong Kong and a fairly influential integrated international commercial bank in the mainland market.

Business strategy: Firstly, to consolidate and development corporate finance business, by building up customer foundation, expanding the scale of assets, and contributing to sustained profitability. Leveraging the synergies and the stable foundation established over the years by the Group, we provided customers with diversified and targeted integrated financial services solutions and built professional and quality corporate banking service brand. Secondly, based on a good business foundation, through differentiated and refined personal financial business development, it offered personalized and customized integrated wealth management solutions to address differentiated needs of different customers. Thirdly, we made effective use of the characteristics of cross-border business and upheld the business philosophy of “standardized branding and closely-related service in both regions” of NCB to further develop the unique advantages of cross-border services. We established integrated financial services platform of cross-border businesses for the sustainable-developed cooperation partners.

IT construction: In accordance with the arrangement of the Group’s information technology development plan, we gradually launched the construction of the IT blueprint. We conducted continuous research and discussion with external professional consultants about system requirements, system functions, development procedures, management methods and scale. We gradually expand and strengthen the IT technology team of NCB according to one principle, which is, carrying out step by step, starting from NCB China, and integrating with the Group.

Risk management and control: We continued to strengthen the management of compliance risk and anti-money laundering, enhanced the communication with regulatory agencies and implemented improvement measures; optimized risk quantification model, improved internal rating model and related risk management system of Basel; enhanced scientific and technological risk management and the human-resource management to improve the professional capabilities of risk control gradually.

NCB

NCB mainly engages in the provision of various wealth management services to individual customers, including deposits in various currencies, foreign exchange, trading of securities, funds, bonds, foreign currencies, securities margin, housing mortgage, as well as tax and personal loans and insurance services. It also provides import and export bills, trade financing, commercial loans, project financing and syndicate loans for corporate customers.

As at December 31, 2016 and 2017, NCB had total assets of RMB312.72 billion and RMB363.10 billion, respectively, total loans of RMB168.85 billion and RMB196.25 billion, respectively, and total deposits of RMB231.57 billion and RMB271.51 billion, respectively. In 2016 and 2017, its net interest income was RMB4.08 billion and RMB5.00 billion, respectively, and the net commission and fee income was RMB1.41 billion and RMB1.38 billion, respectively.

The table below sets forth the key financial and business indicators of NCB as at the dates and for the years indicated.

	As at December 31, 2017	As at December 31, 2016
Asset quality indicators(%)		
Non-performing loan ratio ⁽¹⁾	0.48	0.39
Capital Adequacy ratio indicators(%)		
Total debt-to-capital ratio ⁽²⁾	18.49	16.19
Tier-1 capital ratio ⁽³⁾	16.74	14.31
Tier-1 capital ratio of common equities ⁽⁴⁾	13.10	14.31
Other indicators(%)		
Liquidity coverage ratio ⁽⁵⁾	159.33	141.78
	2017	2016
Profitability indicators(%)		
Return on average assets ⁽⁶⁾	0.83	0.84
Return on average shareholder's equity ⁽⁷⁾	7.42	7.25
Net interest margin ⁽⁸⁾	1.57	1.52
Cost-to-income ratio ⁽⁹⁾	37.96	41.16

Notes:

- (1) Equals the sum of loans classified as substandard, doubtful and loss divided by total loans to customers.
- (2) Equals the sum of tier-1 capital and tier-2 capital divided by net risk-weighted assets.
- (3) Equals tier-1 capital divided by net risk-weighted assets.
- (4) Equals tier-1 capital of common equities divided by net risk-weighted assets.
- (5) Equals high-quality liquid asset reserves divided by the difference between cash outflows over the next 30 days and cash inflows over the next 30 days.
- (6) Equals profit after tax for the period divided by the average of assets as at the beginning and the end of the period.
- (7) Equals net profit attributable to equity holders for the period divided by the average of equity attributable to equity holders as at the beginning and the end of the period.
- (8) Equals net interest income divided by daily average balance of interest-generating assets.
- (9) Equals operating expenses divided by operating income.

NCB Hong Kong is well-known for its personal wealth management and corporate banking services.

In respect of personal banking business, NCB Hong Kong provided a wide range of personal wealth management products, include various types of investment products, like deposits, and foreign exchange, trading of securities, trades of funds and bonds, and life insurance. As at December 31, 2016 and 2017, personal deposits in Hong Kong amounted to RMB75.27 billion and RMB80.64 billion, accounting for 47.4% and 46.4% of the total deposits of NCB Hong Kong, respectively. NCB Hong Kong also provides a series of personal loan products, including mortgage, tax and various personal loans. As at December 31, 2016 and 2017, total personal loans amounted to RMB21.03 billion and RMB20.31 billion, accounting for 18.0% and 15.6% of the total loans to customers of NCB Hong Kong, respectively. Cooperating in Mainland China and taking advantage of its cross-border business, NCB Hong Kong has provided credit plans for cross-border customers, using their properties in Mainland China as security. In 2016 and 2017, net interest income from personal customers amounted to RMB530 million and RMB570 million, respectively. Net commission and fee income from personal customers amounted to RMB510 million and RMB470 million, respectively.

In respect of corporate banking business, NCB Hong Kong provides industrial and commercial customers in Hong Kong with a range of credit financing products, such as import and export bills, trade financing, overdraft, industrial and commercial loans, project loans, syndicate loans and other services, at the same time, emphasising the characteristics of cross-border financing, to meet the financing needs of cross-border enterprises. As at December 31, 2016 and 2017, deposits from corporate customers amounted to RMB83.41 billion and RMB93.27 billion, accounting for 52.6% and 53.6% of the total deposits from customers of NCB Hong Kong, respectively. Loans to corporate customers amounted to RMB95.61 billion and RMB109.98 billion, accounting for 82.0% and 84.4% of the total loans to customers of NCB Hong Kong, respectively. In 2016 and 2017, net interest income from corporate customers amounted to RMB1.49 billion and RMB1.82 billion, and net commission and fee income amounted to RMB470 million and RMB490 million, respectively.

In respect of the treasury business, NCB Hong Kong continues to develop various treasury products to help corporate and personal customers to hedge and manage interest rate and exchange rate risks. Moreover, it has made substantial investment in RMB bond market and expanded the domestic financing channels. In particular, it has developed new services for free trade area lending, domestic cash account financing and RMB bond pledge-style repurchase in Mainland China, with an aim to diversify the sources of RMB denominated funds and decrease interest expense.

As of December 31, 2017, the major operating indicators of NCB China were better than the average of foreign owned banks in Shanghai.

The table below sets forth the key financial and business indicators of NCB China as at the dates and for the years indicated.

	As at December 31, 2017	As at December 31, 2016
Asset quality indicators(%)		
Non-performing loan ratio	1.01	0.87
Provision coverage ratio	180.08	151.21
Capital Adequacy ratio indicators(%)		
Core tier-1 capital adequacy ratio	15.93	12.77
Tier-1 capital adequacy ratio	15.93	12.77
Capital adequacy ratio	<u>16.59</u>	<u>13.11</u>
	2017	2016
Profitability indicators(%)		
Return on average assets ⁽⁶⁾	0.40	0.45
Return on average shareholder's equity ⁽⁷⁾	<u>4.99</u>	<u>5.50</u>

As at December 31, 2016 and 2017, NCB China had total assets of RMB121.74 billion and RMB145.54 billion, respectively, total loans of RMB54.62 billion and RMB63.84 billion, respectively, and total deposits of RMB77.35 billion and RMB94.17 billion, respectively. In 2016 and 2017, its net interest income were RMB1.07 billion and RMB1.16 billion, respectively, and the net commission and fee income were RMB0.43 billion and RMB0.46 billion, respectively.

Based on the types of products and services provided, business of NCB China divides into three segments, namely corporate banking, retail banking and treasury services.

Corporate banking services mainly include deposits, loans, settlement, trade-related products and other banking services to corporate customers. As at December 31, 2016 and 2017, the total corporate loans amounted to RMB41.26 billion and RMB49.32 billion, accounting for 75.5% and 77.3% of the total balance of loans, respectively. Total corporate deposits amounted to RMB68.09 billion and RMB86.27 billion, accounting for 88.0% and 91.6% of the total balance of deposits, respectively.

Retail banking services mainly include deposits, credit and debit cards, consumption loans, mortgage loans and personal asset management and other banking services to individual customers. As at December 31, 2016 and 2017, the total retail loans amounted to RMB13.36 billion and RMB14.52 billion, accounting for 24.5% and 22.7% of the total balance of loans, respectively. The total retail deposits were RMB9.26 billion and RMB7.90 billion, accounting for 12.0% and 8.4% of the total balance of deposits, respectively.

Treasury services mainly include: (1) foreign exchange market business, which primarily consists of spot, forward and swap foreign exchange trading; (2) monetary market business, which primarily consists of inter-bank deposits or borrowings and repurchase and reverse-repurchase agreements; (3) derivative products business, which primarily consists of interest rate swap, options and structural wealth management on behalf of customers; (4) fixed income market business, which primarily includes the businesses of investment and trade of bonds (including certificates of deposit); (5) commodity business, which primarily includes Au (T+D) and Ag (T+D) business, gold forward and gold swap business.

6.3.3.2 Securities, Futures and Fund Management

The Group conducts securities and futures businesses in Mainland China through Cinda Securities and Cinda Futures. The Group also conducts mutual fund management business and other asset management business in Mainland China. In the first half of 2016 and 2017, the revenue of Cinda Securities amounted to RMB2,242.7 million and RMB1,759.3 million.

Cinda Securities

The table below sets forth the net income of securities brokerage, futures and other businesses and their percentages in total operating income of Cinda Securities for the years indicated.

	For the year ended December 31,			
	2017		2016	
	Amount (in millions of RMB)	% of total	Amount (in millions of RMB)	% of total
Securities brokerage	677.0	38.5	937.3	41.8
Futures	227.5	12.9	199.4	8.9
Investment banking	389.0	22.1	231.8	10.3
Asset management	151.5	8.6	269.6	12.0
Other business	314.4	17.9	604.6	27.0
Total	<u>1,759.3</u>	<u>100.0</u>	<u>2,242.7</u>	<u>100.0</u>

Securities brokerage: As at December 31, 2016 and 2017, the number of clients of Cinda Securities' securities brokerage business amounted to 1.471 million and 1.577 million, the total value of its AUM amounted to RMB172.16 billion and RMB170.47 billion, respectively. In 2016 and 2017, the total transaction volume of equity funds of Cinda Securities' securities brokerage business amounted to RMB1,979.63 billion and RMB1,643.03 billion respectively.

Investment banking: In 2016 and 2017, Cinda Securities' underwriting fee and commission income amounted to RMB164.9 million and RMB240.4 million, respectively.

Asset management: As at December 31, 2016 and 2017, the AUM balance of Cinda Securities amounted to RMB71.30 billion and RMB68.85 billion, respectively. In 2016 and 2017, commission and fee income from Cinda Securities' asset management business amounted to RMB269.6 million and RMB151.5 million, respectively.

Other businesses: As at December 31, 2016 and 2017, the turnover of margin financing and securities lending business of the Cinda Securities amounted to RMB7.29 billion and RMB7.50 billion, respectively.

Cinda Futures

In 2016 and 2017, income from the futures business of Cinda Futures amounted to RMB199.4 million and RMB227.5 million, respectively, and the revenue of Cinda Futures amounted to RMB77.4 million and RMB96.3 million, respectively.

First State Cinda Fund

The Group conducts mutual fund business through First State Cinda Fund and those mutual funds are classified into monetary funds, equity funds, bond funds and hybrid funds, which invest in equity assets and fixed income assets mainly. As at December 31, 2016 and 2017, the Group had 16 and 17 mutual securities investment funds with the AUM amounted to RMB65.88 billion and RMB56.97 billion, respectively. In 2016 and 2017, management fee income from such funds amounted to RMB143.8 million and RMB174.0 million, respectively.

Cinda International

The Group interfaced with overseas capital through Cinda International. Cinda International provided the international market with integrated brokerage services and asset management services by focusing on the reformed demands of the restructuring which were formed during the process of “going global” and “bringing in” for the Group and Chinese-funded corporate clients.

In 2016 and 2017, Cinda International generated revenue of RMB134.6 million and RMB177.3 million, respectively.

6.3.3.3 Trusts

The Group conducts trust business through Jingu Trust. In 2017, Jingu Trust adhered to the development concept of professionalism and specialization, promoted structure adjustment and upgrade transformation, achieving breakthroughs in securitization of distressed assets, assets-backed securities, banking credit assets registration business and charitable trust. As at December 31, 2016 and 2017, the existing trust AUM amounted to RMB124.50 billion and RMB116.20 billion, respectively, and the Group managed 128 and 185 existing trust projects, respectively. In 2016 and 2017, the fees and commission incomes generated from trust business were RMB0.32 billion and RMB0.51 billion, respectively, accounting for 63.9% and 60.0% of Jingu Trust's total revenue in respective periods.

Products

The trust products of the Group can be classified as individual trusts and collective trusts depending on the identification of clients.

The table below sets forth the balance of the individual and collective trust schemes as at the dates indicated.

	As at December 31			
	2017		2016	
	Amount (in millions of RMB)	% of total	Amount (in millions of RMB)	% of total
Individual trust schemes	57,693.0	49.6	78,760.0	63.2
Collective trust schemes	58,516.0	50.4	45,766.0	36.8
Total	116,209.0	100.0	124,526.0	100.0

The trust products of the Group can also be classified into financing, investment and nondiscretionary products by investment approaches.

The table below sets forth the balance of the trust products of each type as at the dates indicated.

	As at December 31			
	2017		2016	
	Amount (<i>in millions of RMB</i>)	% of total	Amount (<i>in millions of RMB</i>)	% of total
Financing	18,812.0	16.2	19,099.0	15.3
Investment	26,442.0	22.8	25,931.0	20.8
Non-discretionary	70,955.0	61.0	79,496.0	63.9
Total	116,209.0	100.0	124,526.0	100.0

The table below sets forth details of distribution by industry of the existing trust funds of the Group as at the dates indicated.

	As at December 31			
	2017		2016	
	Amount (<i>in millions of RMB</i>)	% of total	Amount (<i>in millions of RMB</i>)	% of total
Infrastructure	16,814.0	14.5	15,375.0	12.3
Real estate	15,185.0	13.1	13,416.0	10.8
securities market	14,047.0	12.1	5,826.0	4.7
Industry and commerce	13,410.0	11.5	6,100.0	4.9
Financial institutions	6,543.0	5.6	3,061.0	2.5
Asset-backed securitization	21,242.0	18.3	39,185.0	31.5
Others	28,968.0	24.9	41,563.0	33.3
Total	116,209.0	100.0	124,526.0	100.0

6.3.3.4 Financial Leasing

The Group conducts financial leasing business through Cinda Leasing. In 2017, focusing on the two main lines of “accelerating transformation and innovation” and “strengthening risk mitigation to diffuse risk”, Cinda Leasing further deepened its professional development, focused on the allocation of quality assets, and restructured the profit model, leading to a new stage of development. As of December 31, 2016 and 2017, the net finance lease receivables of the Group were RMB41.63 billion and RMB44.20 billion, respectively. In 2016 and 2017, the net revenue generated by the financial leasing business was RMB1,327.3 million and RMB1,228.0 million, respectively, and the net profit generated from the financial leasing business of the Group was RMB755.7 million and RMB618.0 million, respectively.

Products

In 2017, the total income from specialized products and non-specialized products was RMB439.6 million and RMB2,021.3 million, respectively, representing 17.9% and 82.1%, respectively, of Cinda Leasing’s total income for the period.

Clients

The financial leasing clients of the Group are mainly from industries including manufacturing, mining, water conservancy, environment and public utilities management, construction, transportation, logistics and postal services.

The table below sets forth the components of the outstanding finance lease receivables of the Group by industry as at the dates indicated.

	As at December 31,			
	2017 Amount (in millions of RMB)	% of total	2016 Amount (in millions of RMB)	% of total
Manufacturing	16,752.3	36.4	19,615.8	45.1
Mining	3,553.2	7.7	4,455.5	10.2
Water conservancy, environment and public utilities management	6,949.7	15.1	9,368.8	21.5
Construction	120.9	0.3	269.5	0.6
Transportation, logistics and postal services	4,631.1	10.1	3,122.2	7.2
Others	14,032.0	30.5	6,714.7	15.4
Total	<u>46,039.2</u>	<u>100.0</u>	<u>43,546.5</u>	<u>100.0</u>

6.3.3.5 Insurance Business

The Group engages in insurance business through Happy Life. Happy Life mainly offers various types of life and health insurance, accident insurance as well as reinsurance.

The table below sets forth the details of original premium incomes of the main types of life insurance products and their respective percentage of the total income for the years indicated.

	For the year ended December 31,			
	2017		2016	
	Amount	% of total	Amount	% of total
	(in millions of RMB)		(in millions of RMB)	
Life insurance	17,493.3	94.7	12,972.2	95.1
Participating life insurance	1,890.1	10.2	2,023.7	14.8
Others	15,603.2	84.5	10,948.5	80.3
Health insurance	768.3	4.2	458.9	3.4
Accident insurance	213.2	1.2	201.6	1.5
Total	18,474.8	100.0	13,632.7	100.0

6.3.3.6 Business Synergy

In 2017, relying on the advantage of main business of the distressed asset management, the Group emphasized and promoted its general concept of synergy. We created a synergy incentive system, and implemented it into the market-based synergy between the main business and different business platforms of the Group.

For the development of collaborative business, our branches (as the main channel of the Group for carrying out regional operations) made full use of the convenience of being close to the customers, deeply explored customers' needs, provided characteristic and differentiated services; our subsidiaries (as product suppliers for integrated financial services) actively leveraged its functional advantages of its own sector, transported resources and provided services to our core business. In this way, we formed a fine synergistic business development environment among the parent company, branches and subsidiaries for customer sharing, product sharing and benefit sharing.

In 2017, through synergy among our branches and subsidiaries, the Group recorded a balance of assets related to synergy RMB356.95 billion from 1,625 customers in relation to 624 projects and generated revenue of RMB2.68 billion.

In 2017, the income derived from collaborative business of NCB amounted to RMB1,020 million. The amount of collaborative deposits and loans with NCB continued to increase, the balance of collaborative deposits with NCB Hong Kong was RMB27.69 billion and the balance of collaborative loans was RMB7.33 billion as at the end of 2017. The balance of collaborative deposits with NCB China was RMB36.74 billion and the balance of collaborative loans was RMB9.92 billion as at the end of 2017. In 2017, Cinda Securities served 167 customers in relation to 170 projects, achieving income of RMB340 million from cross-selling and business collaboration. The collaborative business of Jingu Trust is in relation to 33 projects and 23 customers, achieving income of RMB74.2 million. The scale of collaborative business of Cinda Leasing amounted to RMB17.62 billion in relation to 116 projects and 92 customers, achieving income of RMB303 million. The scale of collaborative business of Happy Life amounted to RMB7.52 billion in relation to 14 projects. Cinda Real Estate gave play to its professional advantages and provided professional consultation and project supervision services for the Group in relation to 70 projects in 2017, achieving income of RMB130 million.

6.3.4 Significant investments and acquisitions

During the reporting period, the Company had no material investments and acquisitions that were required to be disclosed pursuant to the Listing Rules.

6.3.5 Information Technology

In 2017, the implementation of Informationization Planning of the Company (2016 to 2020) has entered the second phase and the informationization construction is in a full-scale implementation. The Company passed the ISO20000-1:2011 and ISO27001:2013 standards certification and obtained new certificates and completed the information security system planning.

Establishment of Information Systems

In 2017, the Company focused on the establishment of the systems in relation to business and risk management, completed the system constructions including capital operation, risk warning, collateral management, business review, investment and asset management, and anti-money laundering, completed the upgrading of accounting system of IFRS 9 and continued to improve information management capabilities.

In 2017, the Restructured Distressed Assets Business System of the Company was awarded the Outstanding Project Award of The Second Yuning Award by Cloud Application Branch of China Computer Users Association, the Risk Warning System was granted the 2017 Financial Technology Innovation Outstanding Contribution Award by Financial Computerizing of PBOC, and the project of Practical Research on Software Defined Network in Financial Industry Cloud Data Center was awarded Second Prize of Achievements in Research on Banking Information Technology 2017 by the China Banking Regulatory Commission.

Construction of IT Infrastructure

In 2017, the group data warehouse platform and unstructuralized data platform of the Company was put into operation. The base management support center in Hefei was in full operation and the basic support capability for informationization was further enhanced.

6.3.6 Human Resources Management

In 2017, the human resources of the Company closely adhered to the group strategy and annual key works, focusing on organizational construction and team building for elite talents. Guided by the spirit of “Compliance Year”, the Company made efforts to improve the allocation efficiency of human resources, and to strengthen the systems of incentives and restraints and optimize the management mechanism of “selecting, using, educating and retaining talents”, in order to provide strong support and strong protection for the implementation of the group strategy and operational management.

Employees

As of December 31, 2017, the Group had 17,551 employees (excluding those employed through labor dispatch agency), of which 15,834 were in mainland China and 1,717 were in Hong Kong and Macao. In the Company and its tier-one subsidiaries (head offices), employees with master’s degree or above and employees with bachelor’s degree accounted for 60% and 37% of the total number of employees, respectively. In order to ensure its stable development in the long run, the Company has attached great importance to its relationship with all employees. The business and financial conditions of the Company are not reliant on particular employee(s).

Remuneration Policy

The Company strived to make remuneration policy more aligned with its strategic plan by allocating remuneration resources after taking into consideration four aspects, namely, value incentive, strategic traction, group collaboration and cost control, and thus the efficiency of resource allocation continued to improve. Taking into account efficiency and fairness, in accordance with the principle of market orientation and based on the annual institutional assessment and profit contribution with the market data as a benchmark, the Company strengthened the correlation among the performance-related pay, company performance and risk control, deployed more incentive resources to front-line business units with outstanding contribution and effective risk control, and increased the floating proportion of payment of performance-based bonuses to strengthen the performance-related pay distribution.

Education and Training

In 2017, the training works of the Company closely adhered to the party building works and the second Five-Year Plan. With the goals of strengthening party building and promoting business development, reinforcing the talent pool and enhancing capacity building, the Company held over 1,200 training programs via on-site and video, online and offline as well as domestic and overseas studies with more than 48,000 attendances and over 30 training hours per employee, which further enhanced the pertinence, systematicness and effectiveness of trainings and further enhanced the political literacy, professional ability, innovative awareness and overall quality of all staff.

6.4 Risk Management

In 2017, the Company adhered strictly to its risk management concept of “protecting the bottom-line by managing risks proactively”. Through establishment of comprehensive risk management system aligned with the corporate development strategy, the Company further optimized the risk management policy and systems. The Company also completed the preparation of Risk Appetite Statement of the Group for 2017 and established the risk appetite transmission mechanism, so that set up a management mechanism that balanced risks, returns and capital. Through innovation of risk management techniques and methods, the Company strengthened the risk management informatization, so as to improve the overall risk control ability of the Group and enhance the effectiveness and responsiveness of risk prevention to overcome the challenges and tests from the changing external market conditions and ensure a stable operation of all businesses. The Company’s overall risks were controlled within an acceptable level, which laid a solid foundation for the realization of the Company’s strategic development targets and operating plans.

The Company continued to promote the establishment of the risk management organization system. The Risk Management Committee under the Senior Management was in smooth operation, which greatly improved the risk management decision-making efficiency. The risk management function of the headquarters has been further improved and the division of labor among the relevant departments was clarified. The Company also set up a regular assessment mechanism for the responsible persons in charge of risk management organization at branches and subsidiaries. The above-mentioned measures further improved the efficiency and professionalism of the risk management, which made the results of risk management provide better support for the business operations of the Company.

The Company continued to improve the risk management system to meet the external regulatory requirements and the internal management needs of the Company. In 2017, through the promotion of “Compliance Year”, six systems such as the Risk Appetite Management Measures of the Group were formulated by the Company. At the same time, the risk management system such as the Comprehensive Risk Management Regulation was consolidated and revised to further improve the comprehensive risk management system.

The Company attached great importance to establishing unified risk management policy of the Group and made a major breakthrough of the establishment of risk appetite system of the Group. In 2017, the Company closely followed the national industrial policies, regulatory requirements and the Company’s development strategy, formulated the Risk Appetite Statement of the Group and related management systems, and set up targeted risk appetite indicator for each business line and risk category, to achieve the full coverage of the Group. Meanwhile, the Company actively explored and optimize the measurement and parameters of economic capital so as to enhance the sensitivity to risks while better conveying the regulatory capital constraint.

The Company continued to strengthen monitoring and management of major risks such as credit risk, market risk, operation risk and concentration risk. The standards of risk monitoring, assessment and appraisal were refined continuously. The risk assessment and appraisal indicators for the branches and subsidiaries were further improved based on the requirements for the economic capital management. Accordingly, the risk monitoring and assessment plan for 2017 was formulated. Monitoring and assessments were conducted regularly to develop reports of

risk assessment of the Group. In 2017, pursuant to the requirements of external supervision and internal control, the Company advanced a number of inspections on special supervision and risk inspections and risk checks, strengthening the compliance management and accountability mechanism and implementing accountability for operational risks. With economic capital management at the top of the agenda, the Company optimized the risk limit control standard and appropriately assigned the economic capital quota for each business line, with an aim to promote proper allocation of business and management resources and boost the overall risk-adjusted profitability. Meanwhile, the Company adopted various risk alleviation measures, centralized the management and alleviation of key risk projects, and strengthened the risk accountability, so as to ensure the overall asset quality of the Group and maintain the overall risk exposure within an acceptable range.

In addition, the Company continued to promote the establishment of information systems related to risk management, proactively explored and implemented a risk warning system based on big data and risk measurement and took precaution in risk control. The Company launched a collateral management system and realized the informationized, systematized and standardized management of collaterals. Meanwhile, the Company continued to improve the internal rating and credit information system and enhance the risk management informatization level, which ensured the timeliness, accuracy and effectiveness of the risk management.

6.4.1 Management of Credit Risk

Credit risk refers to the risk of business losses of the Group resulting from an obligor or counterparty's failure or unwillingness to perform its repayment obligations in a timely manner, or the deterioration of its financial conditions. Credit risk of the Group is primarily related to its distressed debt asset portfolio, corporate and individual loans, and fixed-income investment portfolio of its financial subsidiaries, finance lease receivables of its financial leasing business and other on- and off-balance sheet exposures to credit risk under the consolidated financial statements.

The Company has strictly complied with the regulatory requirements of the CBRC including management guidelines on credit risks. Under the guidance of the Risk Management Committee of the Board and the Senior Management, the Company has optimized the policies and information system of credit risk management and focused on the risk control of key areas to implement the strategies of the Company and control and reduce credit risks.

In 2017, the Company actively refined its credit risk management policies in response to the changes in the macroeconomy and financial regulatory requirements. In particular, 5 regulations were refined, including Measures for the Management of Internal Ratings, Provisional Measures on Concentration Risk Management, Interim Measures on Collateral Management, Measures for the Management of Credit Investigation and Measures for Risk Warning Management.

In 2017, the Company continued to enhance the level of risk measurement. The business credit rating model was optimized with the support of internal data in order to fully identify risk.

In 2017, pursuant to the requirements of CBRC, the Company carried out a special credit risk stress test on its core business. The Company gradually adjusted the core business structure to reduce the industrial concentration risk. At the same time, the Company continued to strengthen the pre-investigation on the project implementation, actively explored ways to resolve the disposal of risk projects and steadily reduced credit risks exposure through speeding up the establishment of risk disposal mechanisms.

6.4.2 Management of Market Risk

Market risk refers to the risk that the Company may suffer losses due to adverse movements in interest rates, exchange rates and market prices such as stock and commodity prices. The market risk management of the Company refers to the process of identifying, measuring, monitoring, controlling and reporting of market risk in accordance with the risk tolerance of the Group. The Company established and refined the market risk management system to control market risk within acceptable range so as to maximize the risk-adjusted returns and constantly improve the standard of market risk management.

The Company has managed interest rate risks mainly by flexibly adjusting the maturity and frequency of financing, reasonably controlling the asset delivery deadline and interest payment methods, increasing the proportion of floating interest product in assets and liabilities and improving the match of asset-liability maturity structure.

With respect to foreign exchange risks, the Company has effectively controlled its exposure of foreign exchange risks mainly by matching currencies used in assets and liabilities. As for the USD bonds and Preference Shares issued by the Company, investment assets are mainly denominated in USD or HKD which is pegged to the exchange rate of USD; a favorable fund linkage mechanism has been developed together with its branch in Shanghai free-trade zone and offshore subsidiaries in order to avoid foreign exchange risks.

With respect to risks of shares in listed companies held by the Company, it has continued to monitor factors such as the trends of macroeconomy, tightness of market liquidity and the latest regulations and requirements that will affect the value of the enterprises in which the Company owns equities. More research and prejudgment efforts were made to reasonably formulate and adjust the investment management strategies of its equities in listed companies and pay close attention to the capital market for more effective management.

With respect to the market risks of its subsidiaries, the Company has established market risk management systems at its banking, insurance, securities and financial leasing business segments in accordance with regulatory requirements and industry practices. In addition, these subsidiaries report their market risk management to the risk management department of the Group on a regular basis.

6.4.3 Management of Liquidity Risk

Liquidity risk refers to the risk that, while the Company remains solvent, it fails to obtain sufficient funds or obtain sufficient funds at reasonable cost to repay debts when they fall due, perform other payment obligation and meet the financial needs of normal business development. The potential resources of liquidity risk mainly include deferred payment from the debtor, limited depth of the market or market fluctuations, difficulties in realizing assets, maturity and structure mismatch of assets and liabilities, insufficient liquidity reserve and operation losses.

Firmly adhering to the liquidity management requirements by relevant regulatory authorities, the Company has established a liquidity management system under the overall planning and management of the Group and strengthened liquidity risk monitoring and management on subsidiaries. Reinforcement and innovations were introduced to diversify financing channels. The Company has enhanced informatization of fund management and liquidity risks management for the effective prevention of liquidity risks of the Group.

The Company conscientiously managed maturity matching of assets and liabilities and ensured a reasonable growth in scale of assets and liabilities. Strictly adhering to regulatory requirements, the Company has strengthened dynamic monitoring and prospective analysis on the indicators of liquidity risks and controlled the risk of maturity mismatch, conducted regular liquidity stress tests and formulated liquidity risk contingency plan. The Company has also paid close attention to follow the domestic and international macroeconomic situations and strengthened the study and prejudgment of market liquidity, so as to adjust the liquidity management strategies in a timely manner and raise policy proposals regarding the optimization of term and structure of assets and liabilities to reduce the overall liquidity risk of the Group.

The Company further strengthened its financing capacity initiatives, continuously refined its liabilities structure with the effort to expand the diversified financing channels for secondary capital bonds, financial bonds, asset securitization and borrowing, increased the proportion of long-term liabilities and developed a stable and diversified innovative financing system.

The Company attached great importance to the management of daily capital position, strengthened the automation and refinement during the full process, improved the capital planning, allocation and appraisal system and maintained an appropriate fund position. The liquidity combination product configuration has been optimized and the operating profit has been enhanced. The Company formulated a scientific and effective pricing mechanism for the internal transfer of funds and reasonably adjusted resources allocation among the business lines with different time and region.

6.4.4 Management of Operational Risk

Operational risk refers to the risk of losses resulting from an inadequacy or deficiency of internal processes, working staff and information technology systems or from external events. In 2017, the Company further strengthened its control over operational risk and promoted the improvement of internal control system so as to further enhance its standard of operational risk management.

The Company completed comprehensive risk detection of the Group in 2017. Each member institution has strictly analyzed and effectively rectified the identified risks and potential risks, and timely mitigated certain business risks and operational risks. For four years, the Company has completed risk detection and onsite inspection of all branches and subsidiaries, which enabled each unit of the Group to enhance its risk awareness, risk responsiveness and qualities of risk inspectors. Based on the results, the Company pushed various business lines to complete regulation revision, process optimization and system development, resulting in stronger control over operational risk.

In 2017, pursuant to the requirements of CBRC on the series of special rectification work of “Three Violations, Three Arbitrage, Four Misconduct, and Financial Market Chaos”, the Company organized the head office and branches and subsidiaries to carry out self-inspection and carried out on-site inspection on 6 branches and 2 subsidiaries. The inspection range of this special rectification work covered corporate governance, internal control mechanism, risk management, business innovation and compliance and risk management in all business segments of the Company. Through special rectification work, the Company further strengthened the awareness of compliance management and improved the effectiveness of long-term mechanism.

In order to establish and improve the rules and regulations of the Company and further optimize the operation and management mechanism, the Company designated the year of 2017 as the “Compliance Year” and conducted a comprehensive clean-up and process optimization of the existing systems of the Company. Through comprehensively reviewing the Company’s various systems and fully understanding the regulatory requirements, the Company eliminated the possible blind spots in the current management system and enhanced the comprehensiveness of the institutional system. Through the optimization of management processes and cleaning overlapped systems, the Company enhanced the efficiency of management and the applicability of the systems, which effectively reduced the possibility of operational risk in the implementation of the systems.

The Company has compiled case studies and conducted risk management training programs and seminars to enhance the risk prevention and solution capacity of all employees, promote the risk management philosophy and encourage them to embrace risk management culture.

Aiming to further raise the information technology management standard, the Company has given play to the guiding role of the information technology management committee, pushed forward the planning of informatization, improved information security, and enhanced the prevention and control of information technology risk.

6.4.5 Management of Reputation Risk

Reputation risk refers to the risks of negative comments to the Company from relevant stakeholders as a result of its operations, management and other activities or external events, which leads to losses of the brand and reputation of the Company.

The Company has put a great emphasis on the establishment of reputation risk management system and integrated it into the comprehensive risk management system. Through establishing reputation risk management approach and emergency plan, the Company continued to improve the governance structure of reputation risk management, enhance the identification, evaluation and reporting of reputation risks, and promote the emergency response mechanism for reputational events, which continued to enhance the standardization and professionalization of reputation risk management. The Company guided the subsidiaries to standardize the reputation risk management and strengthen the reputation risk management at the group level.

The Company attaches great importance to public relations management, actively responds to media concerns and maintains effective communication with stakeholders and the general public. During the reporting period, the Company's reputation risk management steadily improved and the Company maintained a good social image.

6.4.6 Anti-money Laundering

The Company has strictly complied with the relevant anti-money laundering laws and regulations as well as regulatory rules and diligently performed its social responsibility of anti-money laundering. The Company has imposed requirements of anti-money laundering with focus on risk prevention and continuously increased its ability and effectiveness against anti-money laundering risk.

In 2017, the Company has further improved the management system of anti-money laundering. The anti-money laundering internal control system has been amended in accordance with the regulatory changes and business characteristics of the Company and corresponding amendments were made to the customer identification, suspicious transaction report, reporting criteria for large cash transactions, items covered in transaction reports and confidentiality requirements. In order to fulfill its anti-money laundering obligations effectively and ensure the efficiency and comprehensiveness of anti-money laundering work, the Company completed the establishment of an anti-money laundering system. By strengthening anti-money laundering training and publicity campaigns, the Company has enhanced employees' awareness of anti-money laundering and effectively prevented and controlled anti-money laundering compliance risks.

For more details on the risk management of the Company, please see "Risk Management" in the section headed "Corporate Governance Report" and Note VI.75 "Financial risk management" to the consolidated financial statements.

6.5 Capital Management

The Company has fully drawn on the advanced experience of the industry and established the capital constraint oriented operation development model according to the requirements and specific rules in respect of capital regulation by the regulatory authorities. In the process of business expansion, the awareness of capital cost has been intensified. The Company has put emphasis on the return level of risk assets, promoted more efficient and high-quality resource allocation and strived for a more intensive operation model with less capital consumption, so as to create constant and stable value and returns for its shareholders.

The Company calculated its capital adequacy ratio in different categories in accordance with the new indicator system promulgated by CBRC in the Notice of the General Office of the CBRC on Issuing the Indicator System of Off-site Supervision Report of the Financial Asset Management Companies (Yinjianbanfa [2016] No. 38), in which the capital measurement requirement was further classified into core tier-1 capital adequacy ratio of not less than 9%, tier-1 capital adequacy ratio of not less than 10% and capital adequacy ratio of not less than 12.5% from the former single capital adequacy ratio requirement of not less than 12.5% under the original indicator system. The table below sets out the capital adequacy ratio, net capital and risk-weighted assets of the Company on the indicated dates.

	As at December 31, 2017 <i>(in millions of RMB)</i>	As at December 31, 2016
Core tier-1 capital adequacy ratio(%)	10.65	11.87
Tier-1 capital adequacy ratio(%)	14.29	16.41
Capital adequacy ratio(%)	16.77	19.38
Net core tier-1 capital	62,338.0	55,572.3
Net tier-1 capital	83,619.2	76,853.5
Net capital	98,146.9	90,728.6
Risk-weighted assets	<u>585,134.5</u>	<u>468,224.3</u>

As at December 31, 2016 and December 31, 2017, the leverage ratio¹ of the Company was 5.9:1 and 6.3:1, respectively.

6.6 Prospects

In 2018, the global economic growth will continue to recover. However, there are still many uncertain and unstable factors. In particular, the Company should pay close attention to the impact of the normalization of monetary policy. Endogenous growth momentum of the domestic economy is to be promoted. The economic restructuring has a long way to go. The Chinese government will continue to take supply-side structural reforms as the main line and promote economic transformation toward high-quality development. Overall, China's economic trends will continue to be steady and improving. The quality, efficiency and motivation of economic development will be obviously improved. However, the growth rate is facing certain downward pressure.

¹ Represents the ratio of interest-bearing liabilities to equity.

With the deepening of supply-side structural reforms, the risks involved in the key areas such as cutting overcapacity and deleveraging will continue to emerge. The amount of non-performing loans of commercial banks and distressed assets of non-banking financial institutions continued to increase. The amount of accounts receivable from corporations and entities continues to increase, and the risk of bad debts remains high. The hidden risks in the financial markets such as bond, stock and asset management plan become gradually visible, and the distressed assets exposure may grow at a faster pace. During the process of deleveraging and clearing overcapacity of the state-owned enterprises and local governments, a large number of distressed assets and distressed enterprises will emerge. In general, the distressed asset business of the Company will continue to face good opportunities for development.

Guided by the principles proposed at the 19th National Congress of the CPC, the National Financial Work Conference and the Central Economic Work Conference, the Company will firmly grasp the opportunities presented in the course of serving the real economy, preventing and controlling financial risks and deepening financial reform. The Company will keep in mind the original aspiration and its mission, adhere to strengthening the functional position in the financial system, focus and specialize on the core business, promote the transformation, innovation and development of the core business of distressed asset management, continue to place more emphasis on risk control and take supply-side structural reforms serving as the main line in order to promote high-quality development of the Company. First, the Company will continue to consolidate the leading edge of distressed asset business. The Company will continuously enrich the content and variety of distressed assets and innovate solutions for distressed assets and enterprises and constantly improve the ability to prevent and mitigate risks. Secondly, the Company will speed up the cultivation of special business for alternative investment and asset management. Relying on the core strengths of distressed asset business, the Company will provide customers with risk solutions, financing solutions, wealth management and asset management services. Thirdly, the Company will speed up the establishment of a professional brand of financial services. The Company will guide and support subsidiaries to strengthen core competitiveness around the core business, strengthen risk control, enhance capital returns, develop featured products, carry out differentiated competition and cultivate professional brands.

The Company will earnestly study and implement the spirit of the 19th National Congress of the CPC and Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, vigorously strengthen the overall leadership of the Party and provide strong political guarantee for the development of the Company. The Company will continue to promote the compliance system and the comprehensive risk management system of the Group, enhance the level of compliance management and risk management and firmly hold the red line for compliance and the bottom line of risks. The Company will vigorously promote the reform of institutional mechanisms, optimize the organizational structure, talent team, appraisal and incentive scheme around the core business, and continue to stimulate the Group's vitality and enthusiasm. The Company will enhance its IT level, strengthen the integration of the Group's information systems and promote the integration of business and science and technology. The Company will improve the Group's capital management system and internal product pricing system and enhance the efficiency of the Group's capital allocation.

7 SOCIAL RESPONSIBILITY

Throughout 2017, the Company was committed to the mission of preventing and eliminating financial risks, fulfilling targets in corporate social responsibilities and to ensure the Company's sustainable development.

As a stabilizer to eliminate financial risks. The Company focused on its core business of distressed asset management all the time, and adhered to its primary missions to eliminate financial risks and maintain a stable financial order. The Company proactively adapted to market changes, expanded the scale of acquisition of distressed assets and innovated disposal methods of distressed assets. Through disposal of distressed asset by Internet and other disposal means, exploring more options for distressed asset disposal, maximising asset value, and speeding up the process of disposal, the Company leveraged the vital roles an asset management company would play in resistance against and eliminating financial risk.

As a supplier of integrated financial services. The Company leveraged its expertises in financial service to fully support the real economy. The Company also took an active role in the market-oriented debt-to-equity swap, and in the mixed ownership reform of state-owned enterprises and the separation between the principal business and secondary businesses of central state-owned enterprises. In addition, the Company made good progresses for its part in the national and regional development strategies such as supporting the supply-side structural reform, the "Belt and Road" Initiative, the coordinated development of the Beijing-Tianjin-Hebei region and the development of the Yangtze River economic belt. The Company also worked on guiding its branches and subsidiaries in focus on the Group's core business, and leveraging their synergies to broaden their service scope and enhance their customers' service capabilities. The Company also committed to promoting education in finance knowledge to raise customers' awareness to protect their own interests.

As a community for realizing the value of employees. The Company firmly protected employees' rights and interests. Employee representatives' proposals were collected and handled timely through the second meeting of the third session of employees' general meeting. In addition, the Company has expanded its comprehensive training programme and developed a multi-tiers training system. The Company committed to broadening staff career paths and the channels, optimising the staff career development system and to take good care of staff occupational various health and safety, the Company provided several employees health protection benefits. For employees in dire need, the Company actively extended assistance and expressed sympathy and solicitude through activities such as "Heart-Warming" campaigns. Furthermore, a variety of cultural and sports activities were organized to promote work-life balance among all staff.

As a practitioner participating in environmental protection. The Company concerns the global climate change, worked in alignment with national policies and engaged in green finance to support green recycling economy, energy saving, clean energy and other fields. The Company extended financing services to a number of green industry enterprises to help building a beautiful China with lucid waters and lush mountains. The Company also practiced the idea of green development through managing emissions, minimizing electricity, water and paper use in office, consumption of purchased heat, natural gas and petrol of business vehicles, so as to limit the Company's environmental footprint in its operation. The Company also actively promoted environmental protection concept and raised environmental awareness among employees, and sought to further improve the overall environmental performance of office operations.

As a corporate citizen to promote social welfare. The Company resolutely responded to the call of the state for poverty alleviation by expanding financial and talent support to designated alleviation spots in Ledu District, Haidong, Qinghai Province and respective poverty-stricken villages thereof, so as to improve their capabilities in self-reliance. The Company also proactively embarked on a donation campaign to donate computers to Qinghai, Gansu, Yunnan provinces and other areas. In response to the national policy of extending assistance to Xinjiang, the Company made good of the campaign “Visiting, Benefiting and Gathering the people” in the village. Furthermore, the Company had been exploring new channels of targeted poverty alleviation through financial measures, and created the charitable trusts of “Cinda Love No.1 “and “Cinda Love No. 2” to improve people’s livelihood and local productions in poverty-stricken areas and to support education development. The Company also sought to regularise charitable activities and encourage employees to take their part in charities, and won high praise from society.

For specific details in relation to the Company’s social responsibilities and the implementation of the Hong Kong Stock Exchange’s environmental, social and governance requirements, please see the annual social responsibility report of 2017 to be disclosed separately by the Company.

8 CHANGES IN SHARE CAPITAL AND INFORMATION ON SUBSTANTIAL SHAREHOLDERS

8.1 Changes in Ordinary Share Capital

The ordinary share capital of the Company as at December 31, 2017 was as follows:

Class of Shares	Number of Shares	Percentage (%)
Domestic Shares	24,596,932,316	64.45
H Shares	13,567,602,831	35.55
Total	38,164,535,147	100.00

8.2 Substantial Shareholders of Ordinary Shares and De Facto Controller

8.2.1 Interests and Short Positions held by Substantial Shareholders and Other Persons

The Company had 1,744 registered Shareholders of Ordinary Shares as at December 31, 2017. As per the knowledge of the Directors and Supervisors, as at December 31, 2017, the following persons had, or were deemed to have, an interest or short position in the shares and underlying shares which have been recorded in the register kept by the Company pursuant to Rule 336 of the SFO:

Name of substantial shareholders	Capacity	Number of shares held directly and indirectly	Class of shares	Nature of interest	Approximate percentage to the total issued share capital of ordinary shares	Approximate percentage to the relevant class of shares
MOF	Beneficial owner	24,596,932,316	Domestic Shares	Long position	64.45%	100.00%
NSSF	Beneficial owner	2,901,006,093	H Shares	Long position	7.60%	21.38%
China COSCO Shipping Corporation Limited ⁽¹⁾	Interest of controlled corporation	1,907,845,112	H Shares	Long position	5.00%	14.06%

Note:

- (1) As per the Corporate Substantial Shareholder Notice registered by China COSCO Shipping Corporation Limited to the Hong Kong Stock Exchange on December 30, 2016, Oversea Lucky Investment Limited directly held 1,907,845,112 H Shares in the Company. As Oversea Lucky Investment Limited, COSCO SHIPPING Financial Holdings Co., Limited and China Shipping (Group) Company are all controlled corporations directly or indirectly held by China COSCO Shipping Corporation Limited, for the purpose of SFO, each of COSCO SHIPPING Financial Holdings Co., Limited, China Shipping (Group) Company and China COSCO Shipping Corporation Limited is therefore deemed to be interested in the long position of 1,907,845,112 H Shares held by Oversea Lucky Investment Limited in the Company.

8.2.2 Substantial Shareholders

During the Reporting Period, the major shareholder and de facto controller of the Company remained unchanged. Details of the major shareholder of the Company are as follows:

MOF

The MOF was established in October 1949 as a department under the State Council responsible for the administration of revenue and expenditures and taxation policies of the PRC.

8.3 Preference Shares

8.3.1 Issuance and Listing of Preference Shares

During the Reporting Period, the Company did not carry out the issuance and listing of preference shares.

8.3.2 Number of Preference Shareholders and Particulars of Preference Shareholding

As at December 31, 2017, the Company had a total of one preference shareholder (or proxy). Particulars of shareholding of the preference shareholder (or proxy) of the Company are as follows:

Name of shareholder	Nature of shareholder	Type of shares	Increase/decrease during the Reporting Period	Number of shares held as at the end of the Reporting Period	Shareholding percentage (%)
The Bank of New York Depository (Nominees) Limited	Foreign legal person	Offshore Preference Shares	–	160,000,000	100

Note:

- (1) Particulars of shareholding of preference shareholders were based on the information set out in the register of preference shareholders maintained by the Company. Based on information available to the Company, the register of preference shareholders presented the information on proxies of placees.

8.3.3 Dividend Distribution of Preference Shares

Subject to the terms and conditions of the Offshore Preference Shares, each Offshore Preference Share shall entitle the holder thereof to receive non-cumulative dividends which have not been otherwise cancelled. Each dividend will be payable, subject to the terms and conditions of the Offshore Preference Shares, annually in arrears on September 30 each year after declaration by the Board. The Offshore Preference Shares will accrue dividends on their liquidation preference during the period from and including the issue date to but excluding the first reset date, at the rate of 4.45% per annum, and thereafter at the relevant reset dividend rate.

Pursuant to the resolution on the dividend payment of Offshore Preference Shares considered and approved at the fifth meeting and the third regular meeting of the Board for 2017 convened on August 29, 2017, the Company distributed dividends of Offshore Preference Shares on October 3, 2017, at the rate of 4.45% per annum (after tax). The total amount of dividend was USD142.4 million (after tax). For details of the dividend distribution of Offshore Preference Shares, please refer to the announcement dated August 29, 2017 of the Company.

8.3.4 Redemption or Conversion of Preference Shares

The Company has set a trigger event term for the Offshore Preference Shares, upon the occurrence of which the Offshore Preference Shares would be irrevocably and compulsorily converted into certain number of H Shares. The trigger event refers to the earlier of (a) the CBRC having concluded that without a decision on the conversion into ordinary shares, the Company would become non-viable; and (b) the relevant regulatory authorities such as MOF and PBOC having concluded that without a decision on a public sector injection of capital or equivalent support, the Company would become non-viable. Assuming the trigger event occurs and all Offshore Preference Shares shall be compulsorily converted to H Shares at the initial conversion price, the number will be 7,412,441,791 H Shares.

During the Reporting Period, the Company did not redeem or convert any Offshore Preference Shares.

8.3.5 Restoration of Voting Rights of Preference Shares

During the Reporting Period, the Company did not restore any voting right of preference shares.

8.3.6 Accounting Policy Adopted for Preference Shares and Grounds

According to the relevant requirements of the PRC GAAP and IFRS and the terms of Offshore Preference Shares, the Company classifies Offshore Preference Shares as equity instruments. Fee, commission and other transaction costs arising from the issuance of Offshore Preference Shares are deducted from equity. The dividends on Offshore Preference Shares are recognised as profit distribution at the time of declaration.

9 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

9.1 Directors

No	Name	Gender	Year of birth	Position	Term of office
Current Directors					
1	Hou Jianhang	Male	1956	Chairman of the Board Executive Director	From June 2016 upon expiration of the term of the current session of the Board
2	Chen Xiaozhou	Male	1962	Executive Director President	From November 2016 upon expiration of the term of the current session of the Board
3	Li Honghui	Male	1964	Non-executive Director	From June 2016 upon expiration of the term of the current session of the Board
4	Song Lizhong	Male	1960	Non-executive Director	From June 2016 upon expiration of the term of the current session of the Board
5	Xiao Yuping	Female	1960	Non-executive Director	From June 2016 upon expiration of the term of the current session of the Board
6	Yuan Hong	Female	1964	Non-executive Director	From June 2016 upon expiration of the term of the current session of the Board
7	Zhang Guoqing	Male	1966	Non-executive Director	From April 2017 upon expiration of the term of the current session of the Board
8	Liu Chong	Male	1970	Non-executive Director	From August 2017 upon expiration of the term of the current session of the Board
9	Chang Tso Tung, Stephen	Male	1948	Independent Non-executive Director	From June 2016 upon expiration of the term of the current session of the Board
10	Xu Dingbo	Male	1963	Independent Non-executive Director	From June 2016 upon expiration of the term of the current session of the Board
11	Zhu Wuxiang	Male	1965	Independent Non-executive Director	From October 2016 upon expiration of the term of the current session of the Board
12	Sun Baowen	Male	1964	Independent Non-executive Director	From October 2016 upon expiration of the term of the current session of the Board

Hou Jianhang, Chairman and Executive Director

Mr. Hou has been an Executive Director of the Company since June 2010 and Executive Director and Chairman of the Board since May 2011. Mr. Hou had worked on various positions with CCB from June 1989 to April 1999, including deputy director and director of the planning department, deputy general manager of Shandong branch, general manager of the credit management department, and general manager of the credit risk management department. Mr. Hou joined the Company in April 1999 as director of the debt management department. He had also served as the Company's Vice President from September 2000 to June 2010 and as President from June 2010 to May 2011. Mr. Hou graduated from the Liaoning Finance and Economics College (currently known as Dongbei University of Finance and Economics) in 1979 with a major in Infrastructure Finance. He holds the professional title of Senior Economist.

Chen Xiaozhou, Executive Director, President

Mr. Chen has been an Executive Director and President of the Company since November 2016. Mr. Chen had held various positions in CCB from October 1994 to April 1999, including Director of Projects Financing Division of International Business Department, Director of Agency Division of International Business Department and Deputy General Manager of the Business Department of Head Office. Mr. Chen joined the Company in April 1999 and had served as the General Manager of Investment Banking Department until September 2000, Assistant to the President from September 2000 to February 2003, Vice President from February 2003 to December 2008, member of the Party Committee of the Company from December 2008 to June 2013 and Deputy Secretary of the Party Committee of the Company since June 2013. Mr. Chen worked as Chairman of the Board of Directors of Cinda Hong Kong from April 2011 to January 2015 and as the Chairman of NCB Hong Kong since May 2016. Mr. Chen also served as the Chairman and Non-executive Director of Silver Grant International Industries Limited (listed on the Hong Kong Stock Exchange, stock code: 00171) from September 2006 to January 2017. He also served as the Chairman and Executive Director of Cinda International from December 2008 to January 2015. Mr. Chen graduated from the Hangzhou University in 1983 with a bachelor's degree in Economics. He then graduated from the Graduate School of Finance Research Institute of PBOC in 1988 with a master's degree in Economics. He subsequently graduated from the University of New South Wales in Australia in 2002 with a master's degree in business. He holds the professional title of Senior Economist.

Li Honghui, Non-executive Director

Mr. Li has been a Non-Executive Director of the Company since August 2014. Mr. Li had served as the Officer, Associate Chief Officer and Chief Officer of the General Office of the Department of Industry and Communication Finance, as the Deputy Head of the General Information Division of the Department of Industry and Communication, the Deputy Head of the Industry Division and Industry Division I of the Economic and Trade Department, the Deputy Head and Head of the Planning and Investment Division, the Head of the General Office, the Head of the Environment and Resources Division of the Economic Construction Department, and a the Deputy Director of the Investment Appraisal and Censoring Centre under the MOF from August 1990 to June 2014. Mr. Li received a bachelor's degree in Industrial Accounting from Hunan College of Finance and Economics (currently known as Hunan University) in 1987, a master's degree in Economics (majoring in Finance) from the Graduate School of the Finance Science Institute of the MOF in 1990, and a doctor's degree in Economics (majoring in Accounting) from the Graduate School of the Finance Science Institute of the MOF in 1998. He holds the professional title of Senior Economist.

Song Lizhong, Non-executive Director

Mr. Song has been a Non-Executive Director of the Company since August 2014. Mr. Song served as the Officer, Associate Chief officer and Chief Officer of Division II of the Bureau of Retired Veteran Cadres, Deputy Director and Director (Chief Officer level) and the Deputy Director-General of the C.P.C Branch Office of the Bureau of Retired Cadres under the MOF from September 1989 to June 2005, and as the Deputy Head of the Department of Finance of Ningxia Hui Autonomous Region (in temporary capacity) from June 2005 to August 2007, and the Deputy Head of the Bureau of Retired Cadres of the MOF from August 2007 to June 2014. Mr. Song graduated from the Faculty of Chinese of the Renmin University of China with an associate degree in Chinese language in 1987, and graduated from the Correspondence Institute of Party School of the Central Committee of C.P.C with an undergraduate degree in Economic Management in 1999.

Xiao Yuping, Non-executive Director

Ms. Xiao has been a Non-Executive Director of the Company since June 2010. Ms. Xiao joined the PBOC in July 1986 and served consequently from December 1999 to June 2010 as the Staff member, senior staff member and Principle staff member of the Legislation Division, the Deputy Director of General Affairs Division of the Department of Treaty and Law, the Deputy Director of Financial Debt Management Office of the Department of Treaty and Law (deputy director level), the Deputy Director of Legal Affairs Division, the Director of Department of Banking Risk Disposal of Financial Stability Bureau, the Director of Department of Risk Supervision and Evaluation of Banking Industry and the Deputy Inspector of the Financial Stability Bureau. She also served as a visiting scholar at the Los Angeles Branch and New York Branch of Korea First Bank from April 1996 to April 1997. Ms. Xiao graduated from the Peking University in 1986 with a bachelor's degree in Law. She holds the professional title of Senior Economist and is qualified to practice law in China. She has also received the "National Financial Labor-Day Medal".

Yuan Hong, Non-executive Director

Ms. Yuan has been a Non-Executive Director of the Company since June 2013. Ms. Yuan was an Officer of the Heilongjiang Branch of PBOC (Foreign Exchange Bureau) from July 1987 to August 1994 (on secondment to Office of Financial Institutions of Foreign Exchange Business Department of State Administration of Foreign Exchange ("SAFE") from October 1990 to August 1994), the Deputy Principal Officer and Principal Officer of the Office of Financial Institutions, Management and Inspection Department of SAFE from August 1994 to August 1998. She also served as the Principal Officer of Policy Bank Regulatory Office of Bank Regulatory First Division, Policy Bank Regulatory Second Office and Policy Bank Regulatory First Office of PBOC from August 1998 to September 2003. From September 2003 to June 2013, Ms. Yuan had consequently served on positions such as the Assistant Consultant and the Deputy director of Policy Bank Regulatory First Office of Third Bank Regulatory Department, the Director of Off-site Regulatory Office of Fourth Bank Regulatory Department, the Director of Second Off-site Regulatory Office of Fourth Bank Regulatory Department, and as the Associate Counsel of Fourth Bank Regulatory Department of the CBRC. Ms. Yuan concurrently served as a Supervisor of the Board of Supervisors of the Agricultural Development Bank of China from January 2009 to June 2013 and as the Supervisor of the Board of Supervisors of Export-Import Bank of China from June 2009 to June 2013. Ms. Yuan graduated from the Nankai University in 1987 with a bachelor's degree in Economics. She holds the professional title of Economist.

Zhang Guoqing, Non-executive Director

Mr. Zhang has been a Non-Executive Director of the Company since April 2017. Mr. Zhang had served as the teaching assistant, lecturer and associate professor of the Social Science Department of Jiangxi University of Traditional Chinese Medicine from July 1990 to September 2000, and as the Officer of the Regulation and Supervision Department, the Assistant Consultant of the Division of Regulation of the NSSF and the Director of the Domestic Compliance Division from November 2003 to April 2017. Since April 2017, he has been acting as the Deputy Director under the Department of Regulation and Supervision of the NSSF. From March 2010 to June 2016, he acted as the Supervisor of CECEP Wind-power Corporation Co., Ltd. (listed on the SSE, stock code: 601016). He graduated from the Jiangxi University (now known as Nanchang University) and the Zhengzhou University with a bachelor's degree and a master's degree in History in 1987 and 1990, respectively. In 2003, he graduated from the China University of Political Science and Law with a doctor's degree in Law.

Liu Chong, Non-executive Director

Mr. Liu has been a Non-executive Director of the Company since August 2017. Mr. Liu has worked in various companies including the Guangzhou Maritime Transport (Group) Co., Ltd., the Bao'an Branch of China Merchants Bank, the Guangzhou Maritime Transport Group Real Estate Company, the China Shipping (Group) Company, the China Shipping Investment Co., Ltd., the China Shipping Logistics Co., Ltd., the China Shipping Haisheng Co., Ltd. and the China Shipping Finance Co., Ltd.. Mr. Liu currently serves as the General Manager and Executive Director of the COSCO Shipping Development Co., Ltd. (listed on the SSE, stock code: 601866 and Hong Kong Stock Exchange, stock code: 02866), a Director of the China International Marine Containers (Group) Co., Ltd., (listed on the SZSE, stock code: 000039 and Hong Kong Stock Exchange, stock code: 02039), a Director of the COSCO Shipping Financial Co., Limited, the Chairman of the Board of COSCO Shipping Leasing Co., Ltd., the Chairman of the Board of Shanghai Universal Logistics Equipment Co., Ltd. and Florens International Limited. Mr. Liu graduated from the Sun Yat-Sen University in 1990 with a bachelor's degree in Economics.

Chang Tso Tung, Stephen, Independent Non-executive Director

Mr. Chang has been an Independent Non-executive Director of the Company since June 2013. Mr. Chang has been practicing as a Certified Public Accountant in Hong Kong for about 30 years and has extensive experience in accounting, auditing and financial management. Mr. Chang was the Deputy Chairman of Ernst & Young Greater China, Partner of Professional Service Management and Chairman of Audit and Consultant Services of Ernst and Young until his retirement in 2004. Mr. Chang is also a member of the Investment Committee of Shanghai Fudan University Education Development Foundation and Shanghai Fudan University Education Development Foundation (Overseas). Mr. Chang currently serves as an Independent Non-Executive Director of Kerry Properties Limited (listed on the Hong Kong Stock Exchange, stock code: 00683), as Independent Non-Executive Director of Hua Hong Semiconductor Ltd. (listed on the Hong Kong Stock Exchange, stock code: 01347) and Independent Non-Executive Director of China Life Insurance Co. Ltd. (listed on the Hong Kong Stock Exchange, stock code: 02628 and the SSE, stock code: 601628). Mr. Chang graduated from the University of London in 1973 with a bachelor's degree in Science. He is a senior member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants.

Xu Dingbo, Independent Non-executive Director

Mr. Xu has been an Independent Non-Executive Director of the Company since June 2013. Mr. Xu was a Teaching Assistant in the University of Pittsburgh and the University of Minnesota and an Assistant Professor in The Hong Kong University of Science & Technology from 1986 to 2003, and was an Adjunct Professor in the Peking University from April 1999 to April 2009. Mr. Xu joined the China Europe International Business School in January 2004. He currently serves as the Essilor Chair Professor of Accounting, Associate Dean, member of Management Committee. Mr. Xu has been serving as an Independent Non-Executive Director and Chairman of the Audit Committee of The People's Insurance Company (Group) of China Limited (listed on the Hong Kong Stock Exchange, stock code: 01339), Independent Director and Chairman of the Audit Committee of Shanghai Shyndec Pharmaceutical Co., Ltd. (listed on the SSE, stock code: 600420), Independent Director and Chairman of the Audit Committee of the Sany Heavy Industry Co., Ltd. (listed on the SSE, stock code: 600031), Independent Director and Chairman of Audit Committee of the Kweichow Moutai Co., Ltd. (listed on the SSE, stock code: 600519) Independent Director and Chairman of the Audit Committee and Chairman of the Related Transaction Committee of Societe Generale (China) Limited, Independent Director and Chairman of the Audit Committee of the Dong Yi Ri Sheng Home Decoration (Group) Co., Ltd. (listed on the SZSE, stock code: 002713) from December 2010 to July 2017. Mr. Xu graduated from the Wuhan University in 1983 and 1986 with a bachelor's degree in Science and a master's degree in Economics, respectively. Mr. Xu graduated from the University of Minnesota in October 1996 with a doctor's degree in accounting. He is a member of the American Accounting Association.

Zhu Wuxiang, Independent Non-executive Director

Mr. Zhu has been Independent Non-Executive Director of the Company since October 2016. He is a Professor of the Department of Finance of Tsinghua University School of Economics and Management, a PhD tutor and the Director of the Research Institute of Business Models and Industrial Finance of China Center for Financial Research of Tsinghua University. Mr. Zhu has successively served as a teaching assistant, lecturer, Associate Professor and Professor of Tsinghua University School of Economics and Management since January 1990. He has also been a Standing Director of China Society for Finance and Banking and a committee member of the second session of Expert Advisory Committee for Merger, Acquisition and Restructuring under the China Securities Regulatory Commission. Mr. Zhu currently serves as an Independent Director of the China Fortune Land Development Co., Ltd. (listed on the SSE, stock code: 600340), an Independent Non-Executive Director of Beijing Properties (Holdings) Limited (listed on the Hong Kong Stock Exchange, stock code: 00925), an Independent Non-Executive Director of the ZTE Corporation (listed on the Hong Kong Stock Exchange, stock code: 00763 and the SZSE, stock code: 000063), an Independent Non-Executive Director of the Unisplendour Co., Ltd. (listed on the SZSE, stock code: 000938), and an External Supervisor of the Everbright Securities Company Limited (listed on the SZSE, stock code: 601788). Mr. Zhu was an Independent Director of Rongxin Power Electronic Co., Ltd. (listed on the SZSE, stock code: 002123) from June 2013 to March 2016, an Independent Director of the Offshore Oil Engineering Co., Ltd. (listed on the SSE, stock code: 600583) from January 2014 to April 2016, and an Independent Director of Dongxing Securities Co., Ltd. (listed on the SSE, stock code: 601198) from August 2013 to November 2017. Mr. Zhu graduated from the Tsinghua University in 1987, 1989 and 2002 with a bachelor's Degree in Engineering, a master's degree in Engineering and a doctor's degree in Economics, respectively.

Sun Baowen, Independent Non-executive Director

Mr. Sun has been an Independent Non-Executive Director of the Company since October 2016. He is a professor and PhD tutor of the Central University of Finance and Economics. He is also entitled to the special government allowances of the State Council. Mr. Sun was a lecturer of the Central University of Finance and Economics from January 1989 to October 1997 and an Associate Professor of Central University of Finance and Economics from October 1997 to October 2003, and as a Professor and PhD tutor of the Central University of Finance and Economics since October 2003. Mr. Sun is currently a Professor of Internet Economic Research Institute of Central University of Finance and Economics, Chief Consultant of Capital Research Base for Internet and Economic Development in Key Research Base for Philosophy and Social Science in Beijing, member of Steering Committee of Professional E-commerce Education under the Ministry of Education, member of National Expert Committee for Accessible Construction and Executive Director of the China Disability Research Society. He is currently serving as an Independent Director of the Tianshui Zhongxing Bio-Technology Co., Ltd. (listed on the SZSE, stock code: 002772) and Independent Director of the Dareway Software Co., Ltd. (listed on the National Equities Exchange and Quotations, stock code: 831688). Mr. Sun was an Independent Director of the Shandong Hongchuang Aluminum Industry Holding Co., Ltd. (listed on the SZSE, stock code: 002379) from October 2013 to April 2017. Mr. Sun received a bachelor's degree and a master's degree in Engineering from the Northeastern University in 1986 and 1989, respectively, and a doctor's degree in Economics from the Central University of Finance and Economics in 2004.

9.2 Supervisors

No.	Name	Gender	Year of birth	Position	Term of office
1	Gong Jiande	Male	1963	Chairman of the Board of Supervisors/ Shareholder Representative Supervisor	From June 2016 upon expiration of the term of the current session of the Board of Supervisors
2	Liu Yanfen	Female	1953	External Supervisor	From June 2016 upon expiration of the term of the current session of the Board of Supervisors
3	Li Chun	Male	1957	External Supervisor	From June 2016 upon expiration of the term of the current session of the Board of Supervisors
4	Zhang Zheng	Male	1972	External Supervisor	From June 2016 upon expiration of the term of the current session of the Board of Supervisors
5	Gong Hongbing	Female	1966	Employee Representative Supervisor	From June 2016 upon expiration of the term of the current session of the Board of Supervisors
6	Lin Dongyuan	Male	1959	Employee Representative Supervisor	From June 2016 upon expiration of the term of the current session of the Board of Supervisors
7	Jia Xiuhua	Female	1961	Employee Representative Supervisor	From June 2016 upon expiration of the term of the current session of the Board of Supervisors

Gong Jiande, Chairman of the Board of Supervisors and Shareholder Representative Supervisor

Mr. Gong has been the Shareholder Representative Supervisor and Chairman of the Board of Supervisors of the Company since February 2015. Mr. Gong served as the Secretary to General Office, Deputy Secretary and Secretary of Department level to the State Ethnic Affairs Commission of the PRC from August 1995 to October 2000. He also served as the Department Cadre, Research Consultant, Deputy Director and Director of the Organization Department of the C.P.C Financial Work Committee from October 2000 to July 2003. He was the secretary to the Discipline Supervisory Committee (Deputy Director level), the Chairman of the Labor Union (in the grade of Deputy Director), the member of Discipline Supervisory Committee (during which he worked for the C.P.C Financial Inspection Group), General Deputy Secretary to the Party Committee of the Headquarter (Director level) for the CBRC, member of the Informatization Panel and Head of the Government Procurement Office of the CBRC, Vice Chairman of the Research Institute of Party Construction of the Central Government Authorities and Deputy Director of the Chamber of Financial Street from July 2003 to September 2014. He has served as Deputy Secretary of the Party Committee of the Company since September 2014. Mr. Gong graduated from the Party School of the Central Committee of the CPC, majoring in Economic Management in 1996, and graduated from the postgraduate program of the Party School of the Central Committee of C.P.C. in 2007.

Liu Yanfen, External Supervisor

Ms. Liu has been an External Supervisor of the Company since February 2015. Ms. Liu joined BOC in 1982. She served as the General Manager of China Dongfang Trust and Investment Company, the Deputy General Manager and the General Manager of the Finance and Accounting Department of the Head Office of BOC, and the General Manager of the Singapore Branch of BOC. She also served as Chief Audit Officer of BOC from December 2011 to November 2014. Ms. Liu graduated from the Liaoning Finance and Economics College (currently known as Dongbei University of Finance & Economics) with a bachelor's degree in 1982 and obtained a master's degree in Finance from the Wuhan University in 1999. She holds the professional title of Senior Accountant and is qualified as a Certified Public Accountant of the PRC.

Li Chun, External Supervisor

Mr. Li has been an External Supervisor of the Company since February 2015. He is the Founding Partner and Executive Partner of Grandall Law Firm, the Managing Partner of the Hong Kong office of Grandall Law Firm, the President and Chief Researcher of the Grandall Development Research Institute. Mr. Li served as Deputy Director of Jilin Institute of Law of the Chinese Academy of Social Sciences, General Manager of the Jilin Economic and Legal Consultation Centre, Chief Legal Counsel of the China Merchants Shekou Industrial Zone Ltd., Deputy General Manager and Chief Legal Counsel of the Shenzhen Property Rights Exchange, President of the Shenzhen Lawyers Association, Vice President of the Guangdong Lawyers Association, member of the first session of the Listing Committee of the SZSE, Deputy Director of Development Strategy Committee of the All China Lawyers Association, Chief Executive and Chief Researcher of the China Private Funds and Risk Investment Legal Consultation Centre, Adjunct Professor and researcher of the Peking University, the Renmin University of China, the East China University of Political Science and Law and the Shenzhen University. He has participated in the drafting and consultation process for the Company Law of the PRC and the Securities Law of the

PRC. He was once the Independent Director of the Shandong Airlines Co., Ltd. (listed on the SZSE, stock code: 200152), the Shenzhen Laibao Hi-Tech Co., Ltd. (listed on the SZSE, stock code: 002106), the EDAN Instruments, INC. (listed on the SZSE, stock code: 300206) and the LongiTech Smart Energy Holding Limited (listed on the Hong Kong Stock Exchange, stock code: 01281). Mr. Li graduated from Jilin University in 1996 with a master's degree in Law.

Zhang Zheng, External Supervisor

Mr. Zhang has been an External Supervisor of the Company since June 2016. He is a Professor and PhD tutor of Finance of the Guanghua School of Management of Peking University. Mr. Zhang currently serves as an Independent Director of Tianjin Guangyu Development Co., Ltd. (listed on the SZSE, stock code: 000537). He received the 2014 Sun Yefang Financial Innovation Award – Paper Award (with the co-author), the 2014 Taishin Holdings Excellent Paper Award, the Peking University Excellent Teaching Award (2013-2014 Academic Year), the Chinese Finance Annual Meeting Distinguished Service Award (2013), the Fourth Li Yining Teaching Excellence Award (2010), the Tenth Beijing Philosophy and the Social Science Excellent Achievements Award and Doctor's Dissertation Award of Peking University. Mr. Zhang graduated from the Department of Mathematics of Nankai University with a bachelor's degree in Science in 1995 and a master's degree in Science in 1998, and Peking University with a doctor's degree in Economics in 2005.

Gong Hongbing, Employee Representative Supervisor

Ms. Gong has been an Employee Representative Supervisor of the Company since July 2014. From August 1988 to August 1999, Ms. Gong consecutively served as the Officer, Associate Chief Officer and Chief Officer of the Personnel Department of Yantai Branch and the Personnel Division of Shandong Branch of CCB. Ms. Gong joined the Company in August 1999 and served as the Assistant to General Manager of the General Affairs Office and Assistant to the Director of the Board of Directors' Office of the Company, Deputy General Manager of General Affairs Office and Deputy General Manager in charge of the General Affairs Office (Mass Work Department). Since October 2015, she has served as the Deputy Director of the Labor Union and General Manager of the General Affairs Office (Mass Work Department). Ms. Gong graduated from the Harbin Senior Finance College majoring in Bank Management in 1988 and graduated from the Shandong Branch of the Central Party School majoring in Economics and Management in 2002. She obtained a master's degree in Business Administration from the Beijing Jiaotong University in 2008. She is accredited as Senior Political Engineer.

Lin Dongyuan, Employee Representative Supervisor

Mr. Lin has been an Employee Representative Supervisor of the Company since June 2016. Mr. Lin served as the Officer of the Planning Division of the Geology Department of the Ministry of Metallurgical Industry and the Deputy Head of the Finance and Accounting Division and the Head of the Finance Division of the Geological Exploration Bureau from August 1981 to February 2000. Mr. Lin joined the Company in March 2000 and served as the Chief Financial Officer of the Planning and Finance Department, the Deputy Director of the Changsha Office, the Deputy Director of the Beijing Office, and the General Manager of the Asset Appraisal Department. He has served as the General Manager of the Risk Management Department since March 2014. He also served as the Director of Cinda Financial Leasing since September 2015. Mr. Lin graduated from the Zhejiang Metallurgic and Economics Technical School (currently known as Jiaxing University) majoring in Finance and

Accounting in 1981. He also graduated from the School of Adult Education, the Renmin University of China majoring in Accounting with a bachelor's degree in Economics in 2000 and graduated from the Xiangtan University majoring in Political Economics with a doctor's degree in Economics in 2010. He holds the professional title of Senior Accountant.

Jia Xiuhua, Employee Representative Supervisor

Ms. Jia has been an Employee Representative Supervisor of the Company since June 2016. She served as the Officer of the Finance Division of Tianjin Silk Company from July 1985 to April 1988, the Officer of the Business and Finance Department, and Officer and Deputy Chief of the Finance Supervision Department of the MOF from April 1988 to July 2000. She also served as the Deputy Chief and Chief of the Board of Supervisors of the China Huarong Assets Management Company (currently known as China Huarong Asset Management Co., Ltd.) and the China Coal Trust Investment Co., Ltd. (currently known as China Credit Trust Co., Ltd.) as appointed by the Central Financial Work Commission from July 2000 to August 2003. She served as the Chief of the Board of Supervisors and Supervisor at the grade of Chief of the Company as appointed by the CBRC from September 2003 to April 2007. Ms. Jia joined the Company in April 2007 and served as the Deputy General Manager of the Compliance Management Department, the Deputy General Manager of the Audit Department and the Deputy General Manager (General Manager Level) of the Audit Department. She has served as the General Manager of the Audit Department since January 2017. She has also served as the Supervisor of Cinda Financial Leasing since April 2010. Ms. Jia graduated from Liaoning Finance and Economics College (currently known as Dongbei University of Finance & Economics), majoring in Business and Economics and had received a bachelor's degree in Economics in 1985. She is qualified as an accountant.

9.3 Senior Management

No.	Name	Gender	Year of birth	Position	Term of office
Current Senior Management					
1	Chen Xiaozhou	Male	1962	President	From November 2016
2	Zhuang Enyue	Male	1960	Vice President	From March 2007
3	Liu Ligeng	Male	1965	Vice President	From June 2015
4	Liang Qiang	Male	1971	Assistant to the President	From February 2016
5	Chen Yanqing	Male	1963	Assistant to the President	From February 2016
6	Luo Zhenhong	Male	1965	Chief Risk Officer	From October 2013
7	Ai Jiuchao	Male	1967	Board Secretary	From April 2016

No.	Name	Gender	Year of birth	Position	Term of office
Resigned Senior Management					
1	Wu Songyun	Male	1964	Vice President	From June 2013 to February 2017
2	Yang Junhua	Male	1956	Senior Management Member	From September 2005 to February 2017
3	Li Yuejin	Male	1958	Vice President	From February 2011 to January 2018

Chen Xiaozhou, President

Please see “Directors”.

Zhuang Enyue, Vice President

Mr. Zhuang has been a Vice President of the Company since March 2007. From July 1990 to March 2001, Mr. Zhuang had held various positions successively in the National Audit Office, including the Deputy Director of Directing Bureau, the Director of the Second Scientific Research Office, the Deputy Director of Scientific Research Centre, the Vice President of Nanjing Audit University and the Deputy Director of National Audit Office Economic and Trading Section. From March 2001 to July 2003, Mr. Zhuang had served as the Supervisor at the grade of Deputy director of the Board of Supervisors, Deputy Office Director, Supervisor at the grade of Director of the Board of Supervisors, Supervisor at the grade of Director and Office Director of Industrial and Commercial Bank of China. Mr. Zhuang joined the Company in July 2003 and was appointed as the Supervisor at the grade of Director of the Board of Supervisors of the Company. He served as the Executive Director of the Company from May 2011 to June 2013. Mr. Zhuang graduated from the Department of Management of Shanghai Maritime University in 1983 with a bachelor’s degree in Accounting, and graduated from the Renmin University of China in 1990 with a master’s degree in Economics. He was accredited as a Researcher at the National Audit Office and receives government special allowance from the State Council.

Liu Ligeng, Vice President

Mr. Liu has served as a Vice President of the Company since June 2015. From July 1988 to September 2003, Mr. Liu had served as an Officer and Deputy Head of the Education Division, Human Resources Division, and Human Resources and Staff Training Division of the PBOC. He served as an Researcher, the Head and the Deputy Director (Deputy Head) of the Human Resources Department of the CBRC from September 2003 to January 2014. Mr. Liu joined the Company in January 2014 and has served as the Director of the Labor Union of the Company since then. He graduated from Beijing Normal University in 1988 with a bachelor’s degree in Education and obtained a Postgraduate Diploma from Hunan College of Finance and Economics (currently known as Hunan University) in 1998. He holds the professional title of Economist.

Liang Qiang, Assistant to the President

Mr. Liang has been an Assistant to the President of the Company since February 2016. From July 1993 to September 1999, Mr. Liang consecutively served as the Officer and the Director of the General Affairs Division, as Assistant to the Director of the General Office and Deputy General Manager of the Retail Operation Department of the Shanxi Branch of China Construction Bank. Mr. Liang joined the Company in September 1999. He successively served as the Assistant to General Manager and Deputy General Manager of the Capital and Finance Department, Deputy General Manager and Deputy General Manager (General Manager level) of the Planning and Finance Department of the Head Office, the General Manager of the Finance and Budget Department of the Company, and the Secretary of Party Committee and General Manager of the Shanghai Branch. He had served as Deputy head of the Reorganization Leading Panel Office of the Strategic Investors Introduction and Listing Panel Office and Listing Preparation Leading Panel Office. He has been serving as the Head of Listing Preparation Leading Panel Office since February 2016. Mr. Liang is a Standing Member of All-China Financial Youth Federation since January 2014. Mr. Liang graduated from Shanxi Finance & Taxation College in 1993 majoring in Investment and Economic Management. He graduated from the Shanghai University of Finance and Economics majoring in Accounting and obtained a bachelor's degree in Economics in 1999. He obtained an MBA degree from Tsinghua University in 2005. He holds a professional title of Senior Economist.

Chen Yanqing, Assistant to the President

Mr. Chen has been an Assistant to the President of the Company since February 2016. From January 1987 to January 2000, Mr. Chen consecutively served as the First Officer of the Nation Machinery Committee and the Department of Engineering, Agriculture and Machinery of the Ministry of Machine Building and Electronics Industry, the Secretary (at the grade of Deputy Director) of the General Office of the Ministry of Machinery and the Secretary (at the grade of Director) of the Office of the Head of the National Machinery Bureau. Mr. Chen joined the Company in January 2000. He successively served as the Deputy General Manager of the Asset Management Department, the General Manager of the Restructuring Business Department, the Market Development Department, the Group Synergy Department and the Corporate Management Department, the General Manager of Shenzhen Branch and Shenzhen Regional Business Director, the General Manager of the Human Resources Department and the Head of the Organization Department of the Party Committee. Mr. Chen graduated from the Anhui Institute of Technology (currently known as Hefei University of Technology) majoring in Tractor Design and Manufacturing and obtained a bachelor's degree in Engineering in 1983. He completed his Postgraduate studies in Management Engineering at Jiangsu University of Science and Technology (currently known as Jiangsu University) and obtained a master's degree in Engineering in 1998. He obtained an EMBA degree from Tsinghua University in 2010. He holds the professional title of Senior Engineer.

Luo Zhenhong, Chief Risk Officer

Mr. Luo has been the Chief Risk Officer of the Company since October 2013. From July 1988 to April 1999, Mr. Luo held various positions in CCB. Mr. Luo joined the Company in April 1999 and served as the Deputy General Manager and the General Manager of Legal Department, the General Manager of the Legal and Compliance Department of the Company. From October 2008 to November 2012, Mr. Luo served as the Vice President of the Banking Law Division of China Law Society and has served as the Vice President of China Banking Law Society since November 2012. Mr. Luo graduated from Peking University with a bachelor's degree in Law in 1988, a master's degree in Law in 2002, and an EMBA degree in 2012.

Ai Jiuchao, Board Secretary

Mr. Ai has served as the Board Secretary of the Company since April 2016. He held various positions in China National Coal Allocation Corporation, the Ministry of Coal Industry and the National Coal Industry Bureau from June 1989 to September 2000. Mr. Ai joined the Company in September 2000. He served as the Deputy Head and Deputy Head (at the grade of Director) of the Chief Executive Office, the General Manager of the Compliance Management Department and the head of the Board Office. In addition, he has also served as the General Manager of Strategic Development Department and the Director of the Financial Risk Research Center. Mr. Ai graduated from the China University of Mining and Technology and obtained a bachelor's degree in Engineering in 1989. He had also obtained a bachelor's degree in Economics from the Renmin University of China in 1996 and an EMBA degree from the China University of Mining and Technology in 2002. He holds the professional title of Senior Economist.

9.4 Change in Directors, Supervisors and Senior Management

9.4.1 Change in Directors

As elected at the first extraordinary general meeting in 2017 and approved by CBRC, Mr. Zhang Guoqing was appointed as the Company's Non-executive Director since April 10, 2017.

As elected at the second extraordinary general meeting in 2017 and approved by CBRC, Mr. Liu Chong was appointed as the Company's Non-executive Director since August 4, 2017.

9.4.2 Change in Supervisors

During the Reporting Period, there is no change on the members of the Board of Supervisors.

9.4.3 Change in Senior Management

Since February 10, 2017, Mr. Wu Songyun had ceased to be the Vice President of the Company due to other work arrangement.

Since February 28, 2017, Mr. Yang Junhua had ceased to be the Member of the Senior Management of the Company due to age reason.

Since January 26, 2018, Mr. Li Yuejin had ceased to be the Vice President of the Company due to other work arrangement.

9.5 Annual remuneration

9.5.1 Remuneration of Directors, Supervisors and Senior Management

For details of the remuneration of Directors, Supervisors and Senior Management of the Company, please see Note VI.20 "Emoluments of directors and supervisors" and Note VI.21 "Key management personnel and five highest paid individuals" to the consolidated financial statements.

9.5.2 Highest paid individuals

For details of the emoluments of the five highest paid individuals of the Company during the Reporting Period, please see Note VI.21 "Key management personnel and five highest paid individuals" to the consolidated financial statements.

10 CORPORATE GOVERNANCE REPORT

10.1 Summary

During the Reporting Period, the Company has adhered to the principle of good corporate governance of listed companies. It has also dedicated to improving its corporate governance, with strictly compilation with the requirements of the Company Law of the PRC, the Listing Rules, and other applicable laws and regulations, regulatory documents and the Articles. The Company has continuously optimized its governance structure which comprised of Shareholders' general meetings, the Board, the Board of Supervisors, and Senior Management. The Company committed to strengthen the governance system and the system construction, and to create a well-coordinated and effectively balanced corporate governance mechanism to ensure highest degree of compliance, so as to effectively protect the interests of the shareholders and to protect the value of state-owned assets.

The Company has attached great importance to communication between shareholders and investors, continuously improve investor relations management, provide diversified communication channels for investors, and disclose the information in a timely and effective manner, so as to ensure that shareholders and investors of the Company are able to obtain the corporate information in an open, fair, truthful and accurate manner.

During the Reporting Period, the Company was awarded the “2016 Quam Investor Relations Awards (Main Board Category)”, and the “Listed Company with the Best Investment Value” and the “Listed Company with the Best Investor Relations Management” of the “7th China Securities Golden Bauhinia Awards”, which fully demonstrated the Company's market image and recognition.

10.1.1 Corporate Governance Code

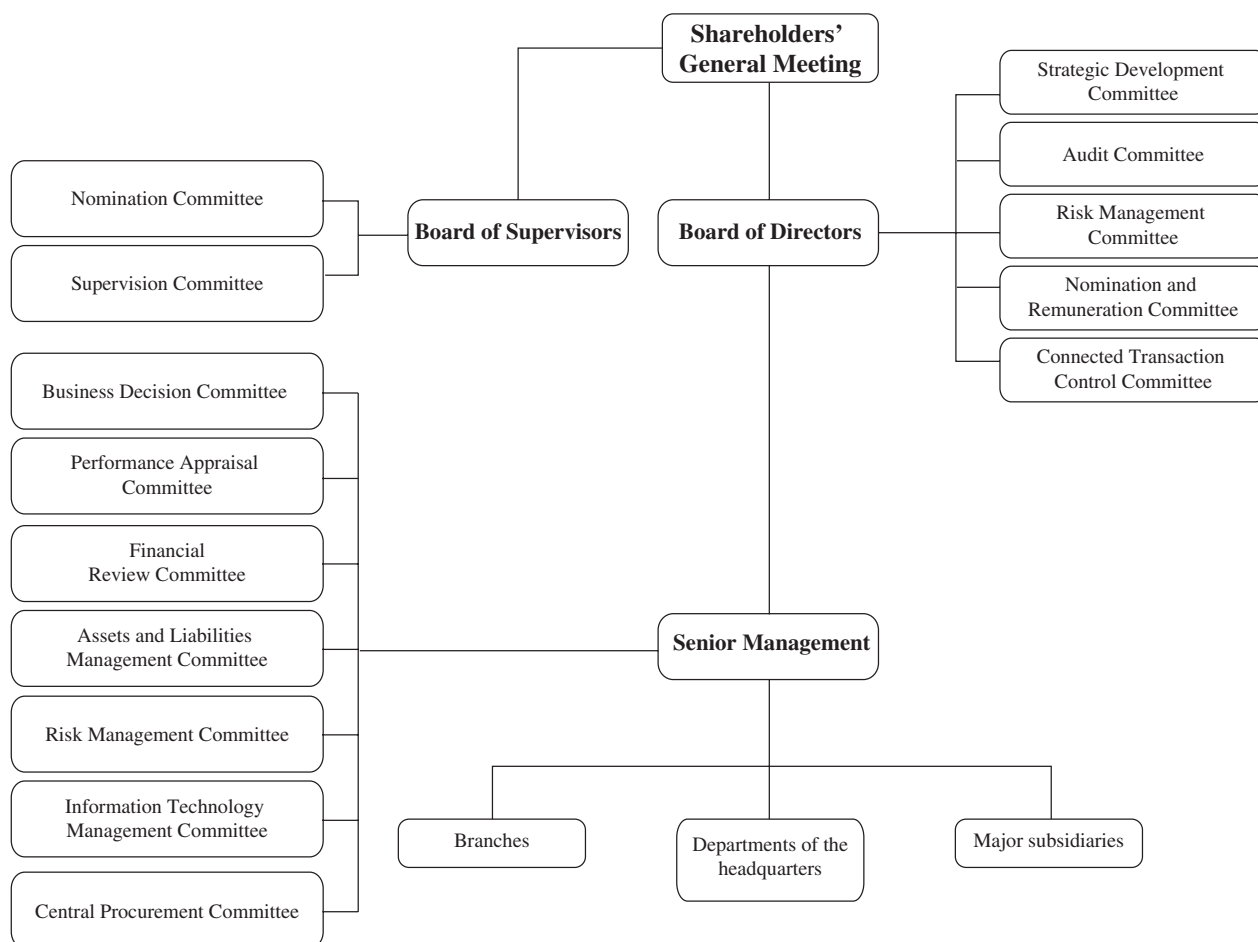
During the Reporting Period, the Company had complied with the Corporate Governance Code under Appendix 14 of the Listing Rules (the “**CG Code**”) and most of the recommended best practices therein.

Corporate Governance Functions

During the Reporting Period, the Board and its special committees performed the following corporate governance duties: (1) to review the Company's policies and practices on corporate governance so as to ensure their effectiveness; (2) to review and monitor the training and continuous professional development of Directors and Senior Management; (3) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements; (4) to develop, review and monitor the code of conduct and compliance manual applicable to Directors and employees; and (5) to review the Company's compliance with the CG Code and the disclosure requirement in the Corporate Governance Report.

10.1.2 Corporate Governance Structure

During the Reporting Period, the corporate governance structure of the Company was as follows:



10.1.3 Amendments to the Articles

During the Reporting Period, the Company made appropriate amendments to the Articles in accordance with the practical share capital structure of the Company after completing the allotment and issuance of H shares in 2016 to reflect the Company's capital structure, registered capital and other corresponding changes. The amendments were made in accordance with the relevant authorizations of the 2015 annual general meeting of the Company regarding the grant of a general mandate to the Board to issue additional H shares and have been filed with the CBRC. For details of the above amendments, please see the announcements of the Company dated July 13, 2017.

During the Reporting Period, the Company amended the Articles in accordance with the requirement of incorporating Party-building work into the articles of association, with reference to the relevant regulations of Guidelines on the Corporate Governance of Commercial Banks issued by the CBRC, and in combination with the Company's corporate governance practice. The amended Articles have been considered and approved at the third extraordinary general meeting for 2017 and yet to be approved by the CBRC. For details of the above amendments, please see the circular of the Company dated October 16, 2017 and the announcement of the Company dated October 31, 2017.

10.2 Shareholders' General Meeting

10.2.1 Responsibilities of Shareholders' general meeting

The Shareholders' general meeting is the organ of authority of the Company and its main functions and powers include: (1) to decide the Company's operating policies and investment plans; (2) to elect and replace Directors and the Supervisors who are non-employee representative Supervisors, and to decide on matters related to the emoluments of Directors and Supervisors; (3) to consider and approve the report of the Board and the report of the Board of Supervisors; (4) to consider and approve the annual financial budgets, final account plans, profit distribution plans and loss recovery plans of the Company; (5) to resolve on any increase or reduction in the Company's registered capital; (6) to resolve on the issuance of corporate bonds, any class of shares, warrants or other marketable securities of the Company and their listing; (7) to resolve on matters related to merger, separation, dissolution, liquidation of the Company or alternation on the form of the Company; (8) to amend the Articles, the procedural rules of the Shareholders' general meetings, the meetings of the Board and the Board of Supervisors; and (9) to consider and approve major investment and disposal of equity interests, investment and disposal of debentures, financing, pledges and guarantee of assets, purchases and disposal of fixed assets, disposal of debt-to-equity swap assets, write off of assets, external donations of the Company and major decisions of invested legal entities.

10.2.2 Details of Shareholders' general meetings

During the Reporting Period, the Company held four Shareholders' general meetings in Beijing, including one annual general meeting and three extraordinary general meetings, and considered and approved 18 resolutions. The Company strictly complied with the legal procedures applicable to Shareholders' general meetings to ensure Shareholders are able to attend the meetings and exercise their rights. Shareholders of the Company voted at the Shareholders' general meetings by poll according to the Listing Rules, and they were fully informed of the voting procedures by poll. The Company engaged lawyers to attend and attest Shareholders' general meetings and to provide legal opinions. Major resolutions considered and approved at the meetings include:

- the resolution on the election of Mr. Zhang Guoqing as Non-executive Director of the Company;
- the resolution on the election of Mr. Liu Chong as Non-executive Director of the Company;
- the resolution on the subscription of new shares issued by Happy Life Insurance Company Limited of the Company;
- the resolution on the remuneration settlement scheme for Directors of the Company for 2015;
- the resolution on the remuneration settlement scheme for Supervisors of the Company for 2015;
- the resolution on the remuneration settlement scheme for Directors of the Company for 2016;
- the resolution on the remuneration settlement scheme for Supervisors of the Company for 2016;
- the resolution on the appointment of accounting firms of the Company for 2017;

- the resolution on the work report of the Board of the Company for 2016;
- the resolution on the report of the Board of Supervisors of the Company for 2016;
- the resolution on the final financial account plan of the Company for 2016;
- the resolution on the profit distribution of the Company for 2016;
- the resolution on the fixed assets investment budget of the Company for 2017;
- the resolution on the amendments to the Articles of the Company;
- the resolution on the amendment of the Rules of Procedures of General Meetings of the Company;
- the resolution on the amendment of the Rules of Procedures of Board Meetings of the Company;
- the resolution on the amendment of the Rules of Procedures of the Board of Supervisors Meetings of the Company;
- the resolution on the subscription of the non-publicly issued shares of Cinda Real Estate Co., Ltd. by the Company through its 60% equity interest in Huainan Mining Real Estate Co., Ltd.

10.2.3 Shareholders' rights

Right to propose to convene extraordinary general meetings

Shareholders who individually or jointly hold 10% or more of the Shares with voting rights (the “**Requesting Shareholders**”) shall have the right to request to convene an extraordinary general meeting or class meeting by written proposal.

The Board shall make a response in writing as to whether or not it agrees to convene such meeting within 10 days upon receipt of the proposal. If the Board agrees to convene an extraordinary general meeting or class meeting, a notice for convening such meeting shall be issued within five days after the resolution of the Board is passed. If the Board does not agree to convene an extraordinary general meeting or class meeting, or fails to give its response, the Requesting Shareholders shall have the right to propose to the Board of Supervisors and such proposal shall be in writing. If the Board of Supervisors agrees to convene an extraordinary general meeting or class meeting, a notice for convening such meeting shall be issued within five days upon receipt of the proposal. If the Board of Supervisors do not provide notice regarding this meeting, shareholders who individually or jointly hold 10% or more of the Company's shares for not less than 90 consecutive days shall be entitled to convene the meeting.

Right to propose resolutions to Shareholders' general meetings

Shareholders, individually or in the aggregate, holding 3% or more of the Shares with voting rights shall have the right to submit proposals to the Company in writing. The Company should incorporate all proposed items, that fall within the power of the Shareholders' general meeting, on the agenda of this meeting.

Shareholders, individually or in the aggregate, holding 3% or more of the Shares with voting rights shall have the right to submit interim proposals 10 days before the Shareholders' general meeting to the convener of such meeting. The convener shall, within two days upon receiving such proposals, serving a supplemental notice to other shareholders, and incorporate all proposed items, that fall within the power of the Shareholders' general meeting, on the agenda of this meeting.

Right to propose to convene extraordinary Board meetings

The Chairman of the Board shall convene an extraordinary meeting of the Board within 10 days from the date of receipt of the request of the shareholders who, individually or severally, hold 10% or more of the Shares with voting rights.

Right to propose resolutions to Board meetings

Shareholders who individually or jointly hold 10% or more of the Shares with voting rights can submit proposals to the Board.

Right to raise proposals and enquiries

Shareholders shall have the right to oversight, to present proposals or to raise enquiries regarding the Company's business operations. Shareholders are entitled to inspect the Articles, the register of shareholders, the state of Company's share capital and minutes of Shareholders' general meetings of the Company. Shareholders may raise their enquiry or proposal to the Board by mail to the registered address of the Company or by emailing to the Company. In addition, Shareholders' enquiry on shares or dividends (if any) can be forwarded to Computershare Hong Kong Investor Services Limited, the share registrar of the H Shares of the Company, whose contact information is available in "Corporate Information" in this report.

Other rights

Shareholders shall be entitled to dividends and other types of interest distributed in proportion to the number of shares held and other rights as conferred by applicable laws, regulations and the Articles.

10.2.4 Attendance of Directors at Shareholders' general meetings

Attendance of Directors at Shareholders' general meetings

Members of the Board	Number of meetings attended/ required to attend	Attendance rate
Executive Directors		
Hou Jianhang	4/4	100%
Chen Xiaozhou	4/4	100%
Non-executive Directors		
Li Honghui	4/4	100%
Song Lizhong	4/4	100%
Xiao Yuping	4/4	100%
Yuan Hong	4/4	100%
Zhang Guoqing	1/2	50%
Liu Chong	1/1	100%
Independent Non-executive Directors		
Chang Tso Tung, Stephen	3/4	75%
Xu Dingbo	1/4	25%
Zhu Wuxiang	3/4	75%
Sun Baowen	4/4	100%

Notes:

1. Attendance includes on-site attendance and attendance through electronic means such as telephone and video online.
2. Attendance rate is the percentage of number of meetings attended by Directors in person to the total number of meetings required to attend.

10.2.5 Independence from controlling shareholder

The Company is independent from its controlling shareholder in operation, personnel, assets, organization and finance. The Company is an independent legal person and is financially independent. The Company has its own independent and complete business and can operate independently.

10.3 Board of Directors

10.3.1 Composition and responsibilities of the Board

As at the date of this report, the Board has 12 members, including two Executive Directors, namely Mr. Hou Jianhang (Chairman) and Mr. Chen Xiaozhou, six Non-executive Directors, namely Mr. Li Honghui, Mr. Song Lizhong, Ms. Xiao Yuping, Ms. Yuan Hong, Mr. Zhang Guoqing and Mr. Liu Chong and four Independent Non-executive Directors, namely Mr. Chang Tso Tung, Stephen, Mr. Xu Dingbo, Mr. Zhu Wuxiang and Mr. Sun Baowen. Their terms of office shall end on the expiry of the current session of the Board.

During the Reporting Period and as at the date of this report, the Company has complied with Rules 3.10 (1) and 3.10 (2) of the Listing Rules to have at least three independent non-executive directors and that at least one of the independent non-executive directors has the requisite professional qualification in accounting with equivalent financial management experience. Besides, the Company has complied with Rule 3.10A of the Listing Rules which stipulates that the number of independent non-executive directors appointed by a listed company shall not be less than one third of the Board.

The Board is responsible for the Shareholders' general meeting in accordance with the Articles. The main duties of the Board include: (1) to convene Shareholders' general meetings and report its work at the Shareholders' general meetings; (2) to implement the resolutions passed at the Shareholders' general meetings; (3) to determine the development strategies, operation plans and investment plans of the Company; (4) to formulate annual financial budgets and final financial account plans, profit distribution plans and loss recovery plans of the Company; (5) to appoint or dismiss the President and the Board Secretary; to appoint or dismiss the Vice Presidents, Assistants to the President and other Senior Management members (excluding the Board Secretary) according to the President's nominations; (6) to formulate plans for increasing or reducing registered capital, merger, division, dissolution and repurchase of shares of the Company; (7) to formulate the assessment methods and remuneration scheme of Directors for approval at the Shareholders' general meeting; (8) to determine the remuneration, performance review, and award and punishment mechanism of Senior Management members of the Company; (9) to determine the risk management, compliance and internal control policies of the Company and to implement appropriate systems with regards to the internal control and compliance management of the Company; (10) to consider and approve the major investment and disposal of equity interests, investment and disposal of debentures, financing, pledges and guarantee of assets, purchases and disposal of fixed assets, disposal of debt-to-equity swap assets, writing-off assets, external donations of the Company and major decisions of invested legal entities, within the authorization of the Shareholders' general meeting.

10.3.2 Board Meetings

In 2017, the Board conducted six meetings, including four regular meetings and two extraordinary meetings. 30 resolutions were passed and nine work reports were reviewed at the meetings. Before the meetings, Directors had been provided with appropriate notice and information necessary for making an informed decision. Among the resolutions passed, there were eight resolutions on management matters, one resolution on material transaction, five resolutions on work reports, three resolutions on nomination of candidates for directors, three resolutions on remuneration and insurance matter and 10 other resolutions. The major issues were as follows:

- the final financial account plan and the profit distribution plan of the Company for 2016 and fixed assets investment budget for 2017;
- the annual report (the annual results announcement) of the Company for 2016 and the interim report (interim results announcement) of the Company for 2017;
- the overall plan of disposal of equity interests in Huainan Mining Industry (Group) Co., Ltd. by the Company;
- the work report of the Board, internal control evaluation report and social responsibility report of the Company for 2016;
- the internal audit work plan of the Company for 2017;
- the dividend distribution of Overseas Preference Shares of the Company ;
- the amendments to the Articles, the Rules of Procedures of the Shareholders' General Meetings and the Rules of Procedures of the Board Meetings of the Company;
- the nomination of candidates for the Non-executive Directors of the Company and election of members of the Strategic Development Committee and the Risk Management Committee;
- the remuneration settlement scheme for Directors and Senior Management of the Company for 2016; and
- receiving the reports on implementation of proposals passed at previous Board meetings and identification of connected persons of the Company.

In addition, the Board had conducted internal evaluation on the effectiveness of risk management and internal control of the Group during the Reporting Period. For details, please see “Corporate Governance Report” – “Risk Management” and “Internal Control” in this report.

10.3.3 Directors' Attendance at Board Meetings

Directors' Attendance at Board Meetings

Members of the Board	Number of meetings attended/required to attend	Attendance rate
Executive Directors		
Hou Jianhang	6/6	100%
Chen Xiaozhou	5/6	83%
Non-executive Directors		
Li Honghui	6/6	100%
Song Lizhong	6/6	100%
Xiao Yuping	6/6	100%
Yuan Hong	4/6	67%
Zhang Guoqing	3/4	75%
Liu Chong	2/2	100%
Independent Non-executive Directors		
Chang Tso Tung, Stephen	6/6	100%
Xu Dingbo	6/6	100%
Zhu Wuxiang	4/6	67%
Sun Baowen	5/6	83%

Notes:

1. Attendance includes on-site attendance and attendance through electronic means such as telephone and video online.
2. Attendance rate is the percentage of number of meetings attended by Directors in person to the total number of meetings required to attend.
3. Director who was not able to attend in person appointed another Director as the proxy to vote at the meetings on his/her behalf.

10.4 Special Committees of the Board

The Board has five committees, namely the Strategic Development Committee, Audit Committee, Risk Management Committee, Nomination and Remuneration Committee and Connected Transaction Control Committee.

10.4.1 Strategic Development Committee

As at the date of this report, the Strategic Development Committee has nine members. Mr. Hou Jianhang (Chairman of the Board) serves as the chairman. The members include six Non-executive Directors, namely Mr. Li Honghui, Mr. Song Lizhong, Ms. Xiao Yuping, Ms. Yuan Hong, Mr. Zhang Guoqing and Mr. Liu Chong and two Independent Non-executive Directors, namely Mr. Chang Tso Tung, Stephen and Mr. Sun Baowen.

The Strategic Development Committee shall perform the following duties, among others, to review the general strategic development plan, annual operation plan and fixed asset investment budget, major restructuring and adjustment proposals, major investments and financing proposals, major merger and acquisition proposals of the Company and make relevant suggestions to the Board; and to review and assess the comprehensiveness of governance structure of the Company and make relevant suggestions to the Board.

During the Reporting Period, the Strategic Development Committee conducted five meetings to consider seven resolutions, mainly including the 2016 final financial account plan, the 2017 annual operation plan, the 2017 fixed asset investment budget, the 2017 financial bond issuance plan of the Company, the overall operation plan of the equity project of Huainan Mining Industry (Group) Co., Ltd. and the plan of internal restructuring of assets in domestic and foreign securities sectors of the Company, and received two reports, namely the corporate governance report of the Company for 2016 and the assessment on implementation of strategic development plan (2016) for the second Five-Year Plan period of the Company.

Directors' attendance at Strategic Development Committee meetings

Members	Number of meetings attended/ required to attend	Attendance rate
Hou Jianhang	5/5	100%
Li Honghui	5/5	100%
Song Lizhong	5/5	100%
Xiao Yuping	5/5	100%
Yuan Hong	3/5	60%
Zhang Guoqing	1/2	50%
Liu Chong	1/1	100%
Chang Tso Tung, Stephen	5/5	100%
Sun Baowen	4/5	80%

Notes:

1. Attendance in person includes on-site attendance and attendance through electronic means such as telephone and video online
2. Attendance rate is the percentage of number of meetings attended by Directors in person to the total number of meetings required to attend.
3. Members who were unable to attend the meetings in person have appointed other members as the proxy to vote on their behalf.

10.4.2 Audit Committee

As at the date of this report, the Audit Committee has four members. Mr. Xu Dingbo (Independent Nonexecutive Director) serves as the chairman. The members include one Non-executive Director, namely Mr. Li Honghui and two Independent Non-executive Directors, namely Mr. Chang Tso Tung, Stephen and Mr. Sun Baowen.

During the Reporting Period and as at the date of this report, the Company has complied with Rule 3.21 of the Listing Rules that at least one member of the Audit Committee has appropriate professional qualifications or has the requisite professional qualification in accounting or relevant financial management experience.

The Audit Committee shall perform the following duties, among others, to review significant financial policies of the Company and their implementation, and supervise financial activities of the Company; to review the financial information and relevant disclosure of the Company; to consider and approve the internal control evaluation work plan of the Company; to supervise and evaluate the internal control and risk management of the Company; to review the corporate governance report to ensure that the disclosure therein complies with the relevant requirements of the CG Code and Corporate Governance Report; to supervise and evaluate the internal auditing of the Company; to propose the appointment or dismissal of the external auditor; to monitor if there may be non-compliance in respect of financial reporting and internal controls; and to evaluate whether the resources devoted to functions such as accounting, internal auditing and financial reporting were sufficient (including whether qualification and experience of relevant personnel in accounting, internal audit and financial reporting as well as the training provided to the staff and the relevant budget were adequate).

During the Reporting Period, the Audit Committee convened four meetings to review eight resolutions including the 2016 annual report (the annual results announcement), the internal control evaluation report for 2016, the risk management report for 2016, the internal audit work plan for 2017, the appointment of external accounting firms, the interim report (interim results announcement) for 2017 and the implementation plan for internal control evaluation of the Company, and received four reports including report on relevant management suggestions from auditors for 2016 and audit plan for financial statements for 2017.

On March 21, 2018, the Audit Committee convened a meeting to resolve the submission of the 2017 annual financial report to the Board for review. The Audit Committee together with the Board and the external auditing firm jointly reviewed the accounting standards and practice adopted by the Group and the audited consolidated financial statements for the year ended December 31, 2017.

During the Reporting Period, the Audit Committee duly performed its duties to review the financial information of the Company and its disclosure, regularly review financial reports of the Company and supervise operating activities of the Company; to supervise and guide the implementation of the internal control evaluation of the Company; to coordinate the communication between the internal audit department and the external auditors, consider auditors' recommendations on management and work together to determine external audit plans and work arrangements; to assess the effectiveness of risk management and internal control of the Company, draft internal audit work plans, and to oversee and monitor the non-compliance of the Company in respect of financial reporting and internal control.

Directors' attendance at Audit Committee meetings

Members	Number of meetings attended/ required to attend	Attendance rate
Xu Dingbo	4/4	100%
Li Honghui	4/4	100%
Chang Tso Tung, Stephen	4/4	100%
Sun Baowen	3/4	75%

Notes:

1. Attendance in person includes on-site attendance and attendance through electronic means such as telephone and video online
2. Attendance rate is the percentage of number of meetings attended by Directors in person to the total number of meetings required to attend.
3. Members who were unable to attend the meetings in person have appointed other members as proxy to vote on their behalf.

10.4.3 Risk Management Committee

As at the date of this report, the Risk Management Committee has five members. Ms. Xiao Yuping (Non-executive Director) serves as the chairman. The members include Mr. Chen Xiaozhou, an Executive Director, two Non-executive Directors, namely Mr. Li Honghui and Mr. Zhang Guoqing, and Mr. Xu Dingbo, an Independent Non-executive Director.

The Risk Management Committee shall perform the following duties, among others: to examine risk management strategies and policies of the Company, and supervise their implementation and effectiveness; to continuously monitor the effectiveness of the risk management and internal control systems of the Company to ensure compliance with the provisions regarding the risk management and internal control under the CG Code and Corporate Governance Report; to review the effectiveness of risk management and internal control systems at least once a year; to review risk management reports of the Company; and to evaluate the risk exposure of the Company; to supervise the performance of the Senior Management members in respect of credit, market and operation risk control; and to formulate and amend the compliance policies of the Company, evaluate and supervise the compliance of the Company.

During the Reporting Period, the Risk Management Committee convened four meetings to review and receive five resolutions and reports, mainly including reviewing the 2016 risk management report and the evaluation report on internal control for 2016 and receiving quarterly risk management reports of the Company. Risk Management Committee looked into and evaluate the effectiveness of the operation of the Company's risk management and internal control system through measures such as considering the risk management reports and internal control reports, assisting the management in identifying the risk appetite of the Company in accordance with the strategic management target of the Company, participating in meetings on the Company's system risk management, and investigation and research on site.

Directors' attendance at Risk Management Committee meetings

Members	Number of meetings attended/ required to attend	Attendance rate
Xiao Yuping	4/4	100%
Chen Xiaozhou	4/4	100%
Li Honghui	4/4	100%
Zhang Guoqing	2/3	67%
Xu Dingbo	4/4	100%

Notes:

1. Attendance in person includes on-site attendance and attendance through electronic means such as telephone and video online
2. Attendance rate is the percentage of number of meetings attended by Directors in person to the total number of meetings required to attend.
3. Members who were unable to attend the meetings in person have appointed other members as proxy to vote on their behalf.

10.4.4 Nomination and Remuneration Committee

As at the date of this report, the Nomination and Remuneration Committee has three members. Mr. Sun Baowen (Independent Non-executive Director) serves as the chairman. The members include Mr. Song Lizhong, a Non-executive Director, and Mr. Zhu Wuxiang, an Independent Non-executive Director.

The Nomination and Remuneration Committee shall perform the following duties, among others: to formulate procedures and standards for the election of Directors and Senior Management members; to preliminarily review the eligibility of the candidates for Directors and Senior Management roles; to make recommendations to the Board on the candidates for Directors, President, Board Secretary, Chairmen (other than the chairman of the Strategic Development Committee) and members of the special committees of the Board; to review the structure and composition of the Board; and to formulate remuneration package of Directors and Senior Management members according to their performance evaluation for the approval of the Board.

During the Reporting Period, the Nomination and Remuneration Committee convened three meetings to consider six resolutions, including the nomination of candidates for the Directors of the Company, the nomination of the members of the Strategic Development Committee and the Risk Management Committee, the remuneration settlement scheme of Directors and Senior Management for 2016, revision of the renewal of liability insurance for Directors, Supervisors and Senior Management, review on the structure, size and composition of the Board (in respect of knowledge, skills and experience), the duty performance of Directors and the independence of independent non-executive Directors.

Directors' attendance at Nomination and Remuneration Committee meetings

Members	Number of meetings attended/ required to attend	Attendance rate
Sun Baowen	2/3	67%
Song Lizhong	3/3	100%
Zhu Wuxiang	2/3	67%

Notes:

1. Attendance in person includes on-site attendance and attendance through electronic means such as telephone and video online
2. Attendance rate is the percentage of number of meetings attended by Directors in person to the total number of meetings required to attend.
3. Members who were unable to attend the meetings in person have appointed other members as proxy to vote on their behalf.

The procedures of nominating Director candidates and the selection criteria are as follows:

1. Candidates of Directors or Independent Non-executive Directors shall be nominated through proposal with their detailed information including factors such as:
 - personal particulars such as education background, working experience and any concurrently holding positions;
 - whether there is any connected relationship with the Company or the controlling shareholder and de facto controller of the Company;
 - their shareholdings in the Company;
 - any penalties or punishments imposed by the securities regulatory authorities of the State Council, and other relevant authorities and/or the stock exchanges.
2. A candidate for Director shall, prior to the convening of the Shareholders' general meeting, give a written undertaking letter indicating that he/she has agreed to accept the nomination and that the personal information as publicly disclosed is true and complete, and warrants that he/she will duly perform his/her duties as a Director after he/she is elected. A written notice of the intention to nominate a candidate of Director and willingness of the candidate to be elected as well as the written documents of the basic information of the candidate shall be given to the Company within 10 days prior to the date of the Shareholders' general meeting;
3. The Company shall disclose the detailed information on the candidates of Directors to Shareholders at least seven days before convening the Shareholders' general meeting to ensure that Shareholders will have adequate understanding of the candidates when they cast their votes;

4. The length of the period (starting from the next day after the issue of the notice for convening a Shareholders' general meeting), during which the nominators and the candidates of Directors are allowed to submit the aforesaid notice and documents, shall be at least seven days;
5. The Shareholders' general meeting shall review and vote on the election of each candidate by way of a separate resolution; and
6. A candidate of Director shall act as a Director of the Company upon approval at the Shareholders' general meeting with his/her qualification verified by the regulatory authorities.

The Company attaches great importance to the diversity of the composition of the Board and has formulated relevant policies. To improve the effectiveness of the Board and the standard of corporate governance, the Nomination and Remuneration Committee will strive to ensure diversity in the composition of the Board when selecting candidates of Directors in accordance with the principle of diversified composition of the Board. It will also consider various factors including but not limited to the age, knowledge, cultural and education background, professional and industry experience, and gender, in order to ensure appropriate skills, experience and to ensure diversity of perspectives and opinions among members of the Board. The Nomination and Remuneration Committee evaluates the structure, size and composition of the Board as well as the duty performance of Directors and the independence of independent Directors annually and the improvement on the diversity composition of the Board.

10.4.5 Connected Transaction Control Committee

As at the date of this report, the Connected Transaction Control Committee has three members. Mr. Zhu Wuxiang, an Independent Non-executive Director, serves as the Chairman,. The members include Ms. Yuan Hong, a Non-executive Director, and Mr. Xu Dingbo, an Independent Non-executive Director.

The Connected Transaction Control Committee shall perform the following duties, among others: to identify connected persons of the Company; to review fundamental rules for connected transaction management; to conduct preliminary review on connected transactions to be approved by the Board or Shareholders' general meetings; and to maintain records of connected transactions.

During the Reporting Period, the Connected Transaction Control Committee convened three meetings to consider and receive eight resolutions and reports that included identification of connected persons of the Company, the 2016 connected transaction management report, identifying new connected persons of the Company, the potential connected transactions between the Company and Huainan Mining Industry (Group) Co., Ltd. and receive the internal transaction report of the Group for 2016.

Directors' attendance at Connected Transaction Control Committee meetings

Members	Number of meetings attended/required to attend	Attendance rate
Zhu Wuxiang	3/3	100%
Yuan Hong	3/3	100%
Xu Dingbo	3/3	100%

Notes:

1. Attendance in person includes on-site attendance and attendance through electronic means such as telephone and video online
2. Attendance rate is the percentage of number of meetings attended by Directors in person to the total number of meetings required to attend.

10.5 Board of Supervisors

10.5.1 Duties of the Board of Supervisors

The Board of Supervisors is a supervisory body of the Company and shall be responsible to and report the work to the Shareholders' general meeting pursuant to the Articles. The Board of Supervisors shall perform the following duties: (1) to examine and supervise the financial condition of the Company, and review the financial information including the financial reports and the profit distribution plan of the Company; (2) to supervise the performance of the Board, Senior Management and their constituent members; request Directors and Senior Management to correct their acts which have impaired the interests of the Company; (3) to propose the convening of extraordinary general meeting and to convene and preside over Shareholders' general meetings when the Board fails to perform its duty of convening and presiding over the Shareholders' general meeting under applicable laws, regulations and the Articles; (4) to submit proposals to the Shareholders' general meeting; (5) to propose to convene an extraordinary meeting of the Board; (6) to formulate the evaluation method and remuneration scheme of Supervisors and assess and evaluate their performance for approval at the Shareholders' general meeting; (7) to supervise and evaluate the risk management and internal control of the Company and provide guidance on the work of the internal audit department of the Company; and (8) to nominate shareholder representative Supervisors, external Supervisors and independent non-executive Directors.

10.5.2 Composition of Board of Supervisors

As at the date of this report, the Board of Supervisors consists of seven Supervisors, including one Shareholder Representative Supervisor, namely Mr. Gong Jiande, and three External Supervisors, namely Ms. Liu Yanfen, Mr. Li Chun and Mr. Zhang Zheng, and three Employee Representative Supervisors, namely Ms. Gong Hongbing, Mr. Lin Dongyuan and Ms. Jia Xiuhua. The term of office of the above Supervisors shall be valid until the end of the term of the Board of Supervisors and they shall be eligible for re-election upon the expiry of their term of office.

The shareholder representative Supervisors and external Supervisors of the Company are elected at the Shareholders' general meeting and the employee representative Supervisors of the Company are elected at the employees' general meeting.

10.5.3 Chairman of the Board of Supervisors

Mr. Gong Jiande acts as the chairman of the Board of Supervisors and is responsible for the operation of the Board of Supervisors in accordance with the Articles.

10.5.4 Meetings of the Board of Supervisors

In 2017, the Board of Supervisors of the Company convened four meetings and approved 13 resolutions, including the work report of the Board of Supervisors for 2016, the performance report of the Directors and Senior Management for 2016, the key areas of the performance supervision of the Directors and Senior Management for 2017, the internal control evaluation report for 2016, the final financial account for 2016, the profit distribution plan for 2016, the social responsibility report for 2016, the annual report (the annual results announcement) for 2016, submission of the remuneration settlement scheme of Supervisors for 2016 to the Shareholders' general meeting for approval, the interim report (the interim results announcement) for 2017, the amendments of the Articles (related to the Board of Supervisors), the Terms of Reference of Special Committees of the Board of Supervisors and the Rules of Procedures of the Board of Supervisors Meetings.

Supervisors' attendance at meetings of the Board of Supervisors

Supervisors	Number of meetings attended/required to attend	Attendance rate
Gong Jiande	4/4	100%
Liu Yanfen	4/4	100%
Li Chun	4/4	100%
Zhang Zheng	3/4	75%
Gong Hongbing	4/4	100%
Lin Dongyuan	4/4	100%
Jia Xiuhua	4/4	100%

Notes:

1. Attendance in person includes on-site attendance and attendance through electronic means such as telephone and video online.
2. Attendance rate is the percentage of number of meetings attended by Supervisors in person to the total number of meetings required to attend.
3. Supervisor who was not able to attend in person appointed another supervisor as the proxy to vote at the meetings on his/her behalf.

10.5.5 Special committees of the Board of Supervisors

The Board of Supervisors has two special committees, namely the Nomination Committee and the Supervision Committee, which assist the Board of Supervisors to perform its obligations under the authorization of the Board of Supervisors, and report their work to the Board of Supervisors.

Nomination Committee

As at the date of this report, the Nomination Committee consists of three member, including Mr. Gong Jiande as chairman, and Mr. Zhang Zheng (External Supervisor) and Ms. Gong Hongbing (Employee Representative Supervisor) as members.

The duties of the Nomination Committee primarily include: (1) to make recommendations to the Board of Supervisors on the candidates of Supervisors and to preliminarily review the eligibility of the candidates for Supervisors; (2) to supervise the selections and election procedures of Directors; (3) to provide supervision advices on the performance of duties of Directors, Supervisors and Senior Management, and report to the Board of Supervisors; (4) to review the remuneration settlement scheme of Directors, Supervisors and Senior Management; (5) to perform other duties as authorized by the Board of Supervisors.

During the Reporting Period, the Nomination Committee convened two meetings to review the following issues, including the report on the performance of Directors and members of the Senior Management for 2016, reviewing the key areas of the performance supervision of Directors and Senior Management for 2017 and the resolution on submitting the remuneration settlement scheme of Supervisors for 2016 to the Shareholders' general meeting for approval.

Supervision Committee

As at the date of this report, the Supervision Committee consists of four members, including Ms. Liu Yanfen (External Supervisor) as chairman, and Mr. Li Chun (External Supervisor), Mr. Lin Dongyuan (Employee Representative Supervisor) and Ms. Jia Xiuhua (Employee Representative Supervisor) as members.

The duties of the Supervision Committee primarily include: (1) to review the financial reports and the internal control report of the Company and report to the Board of Supervisors; (2) to supervise the risk management of the Company; (3) to supervise the formation and implementation of the Company's strategies; (4) to supervise the independence and effectiveness of external auditing; (5) to perform other duties as authorized by the Board of Supervisors.

During the Reporting Period, the Supervision Committee convened four meetings to review the following resolutions, including the final financial account plan for 2016, the internal control evaluation report of the Company for 2016, the 2016 annual report (annual results announcement), the interim report (interim results announcement) of the Company for 2017, the amendments of the Articles (related to the Board of Supervisors), the Terms of Reference of Special Committees of the Board of Supervisors and Rules of Procedures of the Board of Supervisors Meetings.

10.6 Chairman of the Board and President

In accordance with A.2.1 of the CG Code and the Articles, the Chairman of the Board and the President shall be assumed by different individuals, and the Chairman of the Board shall not be assumed by the legal representative or key management of the controlling shareholder.

Mr. Hou Jianhang acts as the Chairman of the Board and the legal representative of the Company, and is responsible for leading the Board to formulate the annual budget and final account, and determine business development strategies, risk management, compliance, internal control policies and other major matters of the Company.

Mr. Chen Xiaozhou acts as the President of the Company and is responsible for the business operation and daily management of the Company. The President of the Company shall be appointed by the Board and is accountable to the Board. He shall perform his duties in accordance with the Articles and the authorization granted by the Board.

10.7 Senior Management

10.7.1 Composition and duties of Senior Management

The Senior Management is the executive body of the Company and is accountable to the Board. As at the date of this report, the Senior Management of the Company comprises seven members. For details of its composition, please see “Directors, Supervisors and Senior Management” – “Senior Management” in this report. There is a strict separation of power between the Senior Management and the Board. The Senior Management determines the operation management and decisions within its terms of reference as authorized by the Board. Senior Management of the Company includes President, Vice Presidents, Assistants to the President, Chief Risk Officer and Board Secretary. Other members of Senior Management perform their duties and take responsibilities according to the authorization of the President. The Board, conducts appraisal on the Senior Management and its members in accordance with the evaluation requirements of the MOF and CBRC, the results of which form the basis of the remuneration and performance arrangements of the Senior Management.

10.7.2 Supervision and evaluation of the performance of Directors and Senior Management

In accordance with the Measures on the Performance Supervision of the Board of Supervisors and the key areas of the performance supervision of the Directors and Senior Management for 2017, the Board of Supervisors conducted supervision on the performance of the Board, Senior Management and its members through attending the Shareholders’ general meetings, Board meetings, meetings of the special committees of the Board and the meetings of Senior Management, examining the agenda, minutes and performance reports of Director and Senior Management, and taking into account the daily supervision.

10.7.3 Remuneration of Directors and Senior Management

For the remuneration policy of the Directors and Senior Management, please refer to the “Report of the Board of Directors” – “Remuneration Policy of Directors, Supervisors and Senior Management” of this report.

For the remuneration of Senior Management by band, please refer to note VI. 21 “Key management personnel and five highest paid individuals” to the consolidated financial statements.

10.8 Risk Management

The Company endeavours to develop a comprehensive risk management system which is in line with the scale and complexity of its business development, and has developed a comprehensive risk management framework consisting of four levels, namely the Board and the Board of Supervisors, the Senior Management, the Risk Management Department and relevant functional departments at the head office, and its branches and subsidiaries, and three lines of defence comprising of the business operation departments, the functional departments of risk management and the internal audit departments.

The Board assumes ultimate responsibility for the effectiveness of overall risk management. Its Risk Management Committee supervises and evaluates the Group's risk management and internal control, and the Audit Committee supervises the Group's internal control, internal audit and risk management. The Board of Supervisors supervises the risk management and internal control of the Company and presents suggestions and proposals accordingly. The Senior Management, including the Chief Risk Officer, as authorized by the Board, is accountable to the Board for the overall effectiveness of comprehensive risk management. The Risk Management Committee of the Board listens to the management's quarterly report on the Group's risk management, review the annual risk management report of the Company and ensures the effective and stable operation of the risk management system through reviewing reports and field research. Based on the review of the available reports and operating conditions, the Board is of the view that all policies, systems and processes of risk management formulated by the Board has been effectively enforced at the operation level, and henceforth fostered a stable and prudent risk management culture, with necessary organizational structure, human resources, management instruments and technical means available for risk management. During the Reporting Period, the Company's risk management and internal control system is effective and the relevant risk is within the acceptable range of the Company. The Board is satisfied with the current risk management procedures and internal control mechanism of the Company and intends to further promote its optimization and improvement.

Details of the Company's establishment of risk management system, risk management framework and control measures for 2017 are set out in the "Management Discussion and Analysis" – "Risk Management" in this report.

10.9 Internal Control

In accordance with the requirements of enterprise internal control system, the Board of the Company is responsible for the establishment and implementation of a sound and effective internal control system and the evaluation of its effectiveness, and truthfully disclosing the internal control evaluation report. The Board of Supervisors is responsible for supervising the establishment and implementation of internal control system by the Board. The Senior Management is responsible for organizing the daily operation of internal control system of the Company.

The objectives of the internal control of the Company are to reasonably ensure its operation and management in compliance with laws and regulations, assets safety, the authenticity and completeness of financial reports and relevant information, to improve operation efficiency and effects, and to facilitate the Company to achieve its development strategic targets. Due to its inherent limitations, internal control can only provide reasonable assurance regarding the achievement of the above objectives. Moreover, changes in circumstances may render the internal control mechanisms inappropriate, or reduce the degree of compliance with policies and procedures, so that predicting effectiveness of internal control in the future according to the appraisal results of internal control may involve certain risks.

The Company established a management structure of internal control consisting of three precautionary mechanisms under the leadership of the Board, the Board of Supervisors and the management, and clarified the division of internal control responsibilities and the reporting relationship from management to staff. For corporate governance, the Board is responsible for the thorough examination and evaluation of the establishment, improvement and effective implementation of the internal control mechanisms as well as the effectiveness of the internal control, while the Board of Supervisors was responsible for supervising the Board and the management on the establishment, improvement, effective implementation and regular evaluation of the Company's internal control system. The management organized and guided the daily operation of the internal control of the Company, established and improved the relevant systems of the operation segment's internal control system, and comprehensively promoted the implementation of the internal control system. The Audit Committee and the Risk Management Committee of the Board annually review the Company's evaluation report on internal control during the year.

In terms of the Company's operation, the relevant business departments, as the first line of defence, established an internal control mechanism of consciously implementing the internal control, self-assessing the risk exposure, self-correcting and reporting timely. Legal and compliance department, as the second line of defence, acts as the functional department for internal control and compliance management, leads the establishment and maintenance of the internal control system, and supervises and examines the internal control by means of routine supervision and special inspection. The audit department, as the third line of defence, audits and evaluates the adequacy and effectiveness of internal control, reports the audit problems to the Board, and supervises and followed up the rectification.

The risk compliance management position in each department of the Company, the compliance and internal control management position and the special audit position in each branch were set up to be responsible for the implementation and evaluation of the internal control management within the scope of the organization. The compliance and internal control department is responsible for the establishment and maintenance of the internal control system of each subsidiary. Each subsidiary has its own internal control contact person to be in charge of promoting the establishment and implementation of the internal control system within the scope of subsidiary, the routine maintenance and inspection organization, and the communication with the head office including the significant events reports and periodic reports.

During the reporting period, as based on the regulatory requirements and the Company's development strategies, the Company continued to optimize the internal control system. We carried out the "Compliance Year" to roll out system re-evaluation and procedure optimization, organized the backbone members of the Company to conduct a comprehensive review and sorting of management system and internal control system of the Company. Strictly followed the regulatory policies, we evaluated all new circumstances and new characteristics emerged in the business operation and internal management in recent years under the system framework in a top-down and progressive manner. By specifying management responsibilities, accumulating practical experiences and optimizing operating procedures, established a corporate governance system with completed structure, clear logic, precise content and standard rules. The Company has also made amendment to the internal control manual based on the changes in regulatory policies, internal policies and organizational structure.

As per the requirements of the CBRC, the Company carried out the “Two Reinforcements, Two Curtailments” review and special rectification campaign and further inquiry and disciplinary actions through the “Three Non-compliances, Three Arbitrages, Four Inappropriate Acts and the Misconduct in Financial Market” campaign. The Company had also conducted comprehensive internal inspection and on-site spot checks on progress in system construction, compliance management, risk management and business management of its branches and subsidiaries. In addition, the Company also specified to them responsibilities in rectification and conduct regular review and supervision, to strengthen the ability of different departments in compliance of regulatory policies and rules of the Company, and eliminated the blind spots in internal control.

The Company actively facilitated the cultural construction of internal control compliance by promoting the core value of internal control compliance through the “Compliance Year” writing contest, labour contest and other special activities as well as public announcement, investigation and study. In line with works in “Compliance Year” system revisions, the Company conducted A full range of multi-level system promotion trainings to strengthen the compliance awareness and performance ability of compliance and internal control management personnel.

Pursuant to the “Measures on the Internal Control of Financial Asset Management Companies”, the “Basic Internal Control Norms for Enterprises”, “Guidelines on the Internal Control of Enterprises”, as well as the Listing Rules, the Company adopted an implementation plan for internal control assessment for 2017 in line with the internal control mechanisms. The plan has clearly defined the scope, procedures and methods of internal control assessment, and actively conducted on-site test and off-site assessment of internal control.

The internal control assessment of the Company for 2017 covered all departments at the headquarters, branches, subsidiaries and major products and business lines, and consisted of comprehensive self-assessment, on-site tests and inspection of key aspects. Each unit designated special departments or personnel to be specifically responsible for sorting out the main business processes one by one to find defects in internal control, actively implementing the rectification and optimizing the establishment and implementation of internal control by taking into account the business operation situations. No material or significant deficiencies in internal control were identified during the assessment while matters to be addressed did not have a substantial impact on the operation and management of the Company. The Company attaches great importance to the matters to be addressed and will launch further rectification measures.

10.10 Internal Audit

The Company has implemented an internal audit system. An audit department is established at the headquarters of the Company with dedicated professional auditors with a mission to independently and objectively supervise, inspect and evaluate the income and expenditure, operating activities, risk exposure and internal control of the Company. All designated auditors are also responsible for reporting material deficiencies in the course of auditing to the Board or the Audit Committee of the Board as well as the Board of Supervisors. The Company’s internal audit system is in compliance with the requirements of CG Code on establishing the internal audit function.

In 2017, the Company had fully completed the annual internal audit plan approved by the Board. In accordance with regulatory requirements, and the corporate risk profile, the Company dedicated to develop and continuously improve its risk management mechanism, its internal control complacency and to ensure that its corporate governance structure and its auditing targets could deliver effective performance. The Company is also continuously improving its audit procedures and approaches in order to upgrade the comprehensive skills of the internal audit team. All in all, the Company has strived to improve quality in auditing, that fully leverage the overseeing and advisory functions of internal audit.

Carrying out regular and special audits. The Company carried out regular and special audits of its branches and subsidiaries that focus on key business targets, major projects, important segments and specific areas in finance and internal control, that based on the strategic development targets of the Company and its risk profile. The Company also carried out performance audit on members of mid-level and above management of the Group during their terms of office, with focus on economic responsibility.

Organizing evaluation on internal control. All departments of the headquarters, and all branches and subsidiaries have conducted self-evaluation in combination with other means including on-site tests and key areas spot checks. In addition, the Company evaluated the effectiveness and sufficiency of internal control and made recommendations for improvement.

Audits on specific areas. The Company had also undertaken audit assignment focusing on specific areas relevant to risk management effectiveness so to enhance risk management standard. Dedicated audit has also been conducted with focus on the Company's investment and asset management business with recommendations on management system and system construction.

Further improving audit system. The Company had re-evaluated and revamped its corporate systems as per changes in regulatory policies and as per working requirements under the "Compliance year". At the same time, the Company continuously expand the knowledge of internal auditors and promote the construction of internal audit team through comprehensive and diversified trainings, in close view of regulatory requirements and the course of corporate development.

10.11 Establishment and implementation of accountability system for material errors in annual reports

The Company has formulated and implemented the "Administrative Measures on the Preparation of Regular Information Disclosure Reports", to ensure accountability in the disclosure of material errors in the annual reports. During the Reporting Period, the Company has strictly complied with the policies and regulations relating to the preparation and disclosure of annual reports and to ensure awareness of this accountability, so as to enhance the quality and transparency of information disclosure in annual reports. During the Reporting Period, there were no material errors discovered in the information disclosed in the annual reports.

10.12 Procedures and Internal Controls for the Handling and Dissemination of Inside Information

During the Reporting Period, the Company raised the compliance awareness of employees and better managed insider information in accordance with the Insider Information Management System and Information Disclosure System. We had also enhanced confidentiality of insider information and strictly implemented the insider registration system to limit the number of insiders as well as proactively prevent insider dealing. To the best knowledge of the Company, during the Reporting Period, there was no incident of insider trading of the shares of the Company by taking advantage of the insider information.

10.13 Communication with Shareholders

10.13.1 Information disclosure and investor relations

The Company has carried out information disclosure and investor relations management, in strict compliance with regulatory provisions and the internal requirements setting out under the rules of the Company, including the Information Disclosure System, the Administrative Measures on the Preparation of Regular Information Disclosure Reports, the Administrative Measures on the Internal Reporting of Material Information and the Provisional Measures of Investor Relations Work. The Company also communicated and interacted with shareholders and potential investors through various channels to assist them in making rational investment decisions and to protect investors' rights and interests.

In 2017, the Company dedicated to information disclosure in strictly compliance with the principle of true, accurate, complete, timely, and fairness. The Company also worked continuously to enhance the quality in regular disclosure report to uplift investors' understanding of the Company's development strategies and business operation, and to further improve focus and effectiveness of regular disclosure reports. Furthermore, the Company also dedicated to disclose temporary announcements in a timely manner, and to actively encourage voluntary disclosure and raise transparency in information disclosure. The Company also dedicated to protect investors' right to know and to raise the standard in information disclosure as well as its enabling working mechanism. Regular training is also conducted on information disclosure. We also strengthened the building of compliance culture according to the deployment of the Company's "Compliance Year" campaign.

The Company always valued the importance of communication with investors, by actively collecting their feedbacks for better interaction. The Company had introduced the corporate strategy development plans, its operation values and development conditions to investors who were concerned about the Company's development and answered investors' concerns through multiple channels to enhance investors' faith in the Company and further boosting recognition of the Company in the capital market as well as its brand influence. In addition, the Company proactively publicized to the public its progress in eliminating financial risks, its service to the real economy and its progress in supporting the supply-side structural reforms and allowing all sectors of society to understand the achievements made by the Company in business innovation and management reforms. In 2017, the Company was awarded the "2016 Quam Investor Relations Award (Main Board Category)", the "7th China Securities Golden Bauhinia Awards – "Listed Company with the Best Investor Relations Management" and "Listed Company with the Best Investment Value", which demonstrated the Company's market image and recognition.

10.13.2 Contacts of Board of Directors' Office

The Board of Directors' Office of the Company is responsible for assisting in the daily operation of the Board. Should investors have any enquiries or shareholders have any suggestions, enquiries or proposals, please contact:

The Board of Directors' Office of China Cinda Asset Management Co., Ltd.

Address: No. 1 Building, 9 Naoshikou Street, Xicheng District, Beijing, PRC

Tel: (86)10-63080528

Email address: ir@cinda.com.cn

10.14 Auditor's Remuneration

As approved by the annual general meeting for 2016, the Company had appointed Ernst & Young Hua Ming LLP and Ernst & Young (collectively “**Ernst & Young**”) as its domestic and international auditors for 2017, respectively, to provide audit service of the annual financial statements, review of the interim financial statements, and audit of internal control for the Company for the year of 2017. During the Reporting Period, the audit fee paid and payable to Ernst & Young and its member firms for the audit of financial statements and audit of internal control amounted to a total of RMB31.64 million. The fees paid and payable to Ernst & Young and its member firms for other verification services amounted to a total of RMB3.87 million. In 2017, the consulting fee paid and payable to Ernst & Young and its member firms amounted to a total of RMB7.06 million, and no other non-audit service fee incurred.

10.15 Responsibilities of Directors in respect of Financial Statements

The Directors are responsible for adopting applicable accounting policies in accordance with PRC GAAP and IFRS. They are also responsible for implementing relevant accounting requirements of the MOF subject to PRC GAAP and IFRS and supervising the preparation of the annual and interim financial statements of the Company so that the financial statements truly and fairly reflect the Group's operating condition of the Group.

10.16 Securities Transactions by Directors, Supervisors and Senior Management

The Company has implemented the “Code for Securities Transactions by Directors, Supervisors and Senior Management” which regulates securities transactions by Directors, Supervisors and Senior Management and is in no less exacting terms than the “Model Code for Securities Transactions by Directors of Listed Companies” specified in Appendix 10 to the Listing Rules. The Company has made enquiries to all Directors and Supervisors who confirmed that they had complied with such code and the requirements set out there during the Reporting Period.

10.17 The Independence of Independent Non-executive Directors

All independent non-executive Directors of the Company are independent persons. The Company has received annual confirmation letters from each of the independent non-executive Directors to confirm their independence. As at the Latest Practicable Date, the Company considered that all independent non-executive Directors are independent. The independence of independent non-executive Directors complies with the relevant guidelines set out in Rule 3.13 of the Listing Rules.

10.18 Trainings for Directors

During the Reporting Period, the Board focused on the continuing professional development of the Directors by encouraging them to take part in and organizing trainings for them. In accordance with Rule A.6.5 of the CG Code, the Directors participated in relevant trainings organized by trade organizations, professional organizations and the Company. In addition, the Directors further improved their professionalism through multiple approaches such as attending seminars and conducting on-site research on local and overseas peers as well as our branches and subsidiaries. The major topics of trainings the Directors participated in are as follows:

External Trainings

Training on merger and financing by The Hong Kong Institute of Chartered Secretaries;

Training on the development of economic globalization and compliance of the financial industry, the financial safety and wealth management by China Investment Corporation.

Internal Trainings

Special training on compliance requirements and regulatory environment of the companies listed on the Hong Kong Stock Exchange;

Training on the related content of the work plan for the disposal of “Zombie Enterprises” by central enterprises;

Training on analysis of the economic condition in the first half of the year and the related content of the economic work arrangements in the second half of the year;

Training on the related content of serving the real economy, the prevention and control of financial risks and deepening financial reforms;

Special Training on international business of financial institutions;

Special Training on auditing, financial management, and fiscal and taxation.

10.19 Joint Company Secretaries

Mr. Ai Jiuchao is one of the joint Company secretaries. He has served the Company for many years and is familiar with the Company's daily operations. In addition, the Company has appointed Dr. Ngai Wai Fung as another joint company secretary to work closely with Mr. Ai. He also assists Mr. Ai in fulfilling the functions and duties of joint company secretary and acquiring relevant experience within the meaning of Rule 3.28 of the Listing Rules. Dr. Ngai is a Director and the Chief Executive Officer of SW Corporate Services Group Limited, a corporate service provider. In respect of corporate governance, the Listing Rules and other applicable laws and regulations related to the Company and other matters, Dr. Ngai shall liaise with Mr. Ai, the key contact person of the Company. Mr. Ai shall report to the Directors and/or the President. During the Reporting Period, Mr. Ai and Dr. Ngai had participated in the relevant professional training courses for no less than 15 hours, in compliance with the requirements of Rule 3.29 of the Listing Rules.

11 REPORT OF THE BOARD OF DIRECTORS

11.1 Principal Business

The Company primarily engages in distressed asset management, financial investment and asset management as well as financial services. Details of the analysis of business review and operating performance, major risks, risk management and future development of the Company are set out in “Management Discussion and Analysis” in this report. During the Reporting Period, there were no significant changes to the principal business scope of the Company.

11.2 Profit and Dividend Distribution

The profit and financial condition of the Company for the year ended December 31, 2017 are set out in the “Management Discussion and Analysis” – “Analysis of Financial Statements” in this report.

Having considered the long-term development requirement and the interests of investors of the Company, the Board proposed to distribute cash dividends for 2017 in the amount of RMB1.42 per 10 shares (tax inclusive) to holders of Domestic Shares and H Shares whose names to appear in the register of Shareholders on the record date, representing total cash dividends of approximately RMB5,419 million on the basis of 38,164,535,147 Domestic Shares and H Shares in issue on December 31, 2017.

The 2017 profit distribution plan of the Company shall be subject to approval by the Shareholders’ Annual general meeting for 2017. Subject to approval, the cash dividend for 2017 is expected to be distributed on or around August 17, 2018 to the holders of Domestic Shares and H Shares whose names shall appear in the register of Shareholders of the Company on the record date for dividend distribution. The cash dividend will be denominated and declared in Renminbi and will be paid in Renminbi to holders of Domestic Shares and in Hong Kong dollars to holders of H Shares. The amount of Hong Kong dollar will be calculated on the basis of the average basic exchange rate between Renminbi and Hong Kong dollar quoted by the People’s Bank of China in one week prior to the date of the Shareholders’ annual general meeting for 2017 (including the date of the meeting).

The Company will announce the date of the Shareholders' general meeting for 2017 and the period of closure of register of members of the Company for the determination of the entitlement of Shareholders to attend the meeting and vote thereat and the determination of the entitlement of Shareholders to cash dividends for 2017 in due course.

The Company attaches great importance to Shareholders' return and has set up sound decision-making procedures and mechanisms for profit distribution. It is clearly provided in the Articles that the Company shall maintain a consistent and stable profit distribution policy in order to secure its long-term interest and sustainable development as well as the interests of its Shareholders as a whole. Profit shall be distributed in cash dividend in priority. Any adjustment to the profit distribution policy of the Company shall be subject to approval of Shareholders by a special resolution passed at the general meeting upon review of the Board.

For individual holders of H Shares, pursuant to the PRC Individual Income Tax Law, the Implementation Regulations of the PRC Individual Income Tax Law, other laws and regulations and relevant regulatory documents promulgated by the State Administration of Taxation of the PRC, the Company shall, as a withholding agent, withhold and pay individual income tax at the rate of 10% for the individual holders of H Shares in respect of the dividend for 2017 to be distributed to them. The individual holders of H Shares may be entitled to certain tax preferential treatments pursuant to the tax treaties between the PRC and the countries (regions) in which the individual holders of H Shares are domiciled and the tax arrangements between mainland China, Hong Kong or Macao.

For non-resident enterprise holders of H Shares in China, the Company will withhold and pay enterprise income tax at the tax rate of 10% for such holders of H Shares pursuant to relevant regulatory documents of the State Administration of Taxation of the PRC. A non-PRC resident enterprise shareholder which is entitled to a preferential tax rate under a tax agreement or an arrangement may, directly or through its entrusted agent or withholding agent, apply to the competent tax authorities for a refund of the excess amount of tax withheld.

For investors of the SSE or SZSE investing in the H Shares of the Company, the Company will distribute the cash dividend for 2017 to China Securities Depository and Clearing Corporation Limited which, as the nominee of the investors of H Shares of Southbound Trading, will then re-distribute the cash dividends to the relevant investors of H Shares of Southbound Trading through its depository and clearing system. Pursuant to the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Caishui [2014] No. 81) and the Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Caishui [2016] No. 127), the Company shall withhold and pay individual income tax at the rate of 20% on behalf of domestic individual investors. For domestic securities investment funds, the tax payable shall be the same as that for individual investors. The Company will not withhold and pay the income tax of dividends for domestic enterprise investors which shall report and pay the relevant tax themselves. The record date and the date of distribution of cash dividends and other arrangements for the investors of Southbound Trading will be the same as those for the holders of H Shares of the Company.

Should the holders of H Shares of the Company have any doubt in relation to the aforesaid arrangements, they are recommended to consult their tax advisors for relevant tax impact in mainland China, Hong Kong and other countries (regions) on the possession and disposal of the H Shares of the Company.

Details of the Company's dividend on Offshore Preference Shares are set out in the section "Changes in Share Capital and Information on Substantial Shareholders – Preference Shares" in this report.

11.3 Distributable Reserves

Details of distributable reserves of the Group for the year ended December 31, 2017 are set out in the Consolidated Statement of Financial Position in the consolidated financial statements.

11.4 Financial Summary

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

11.5 Donations

Donations made by the Group for the year ended December 31, 2017 amounted to RMB3.96 million.

11.6 Property and Equipment

None of the properties held by the Group for development and/or sale or for investment purpose of the percentage ratios (as defined under Rule 14.04(9) of the Listing Rules) exceeds 5%. Details in relation to the changes in property and equipment of the Group for the year ended December 31, 2017 are set out in Note VI.42 "Property and equipment" to the consolidated financial statements.

11.7 Pension Plan

According to the relevant regulations of the PRC, the employees of the Group participate in the social basic pension insurance schemes implemented by the local labour and social security departments. The Group shall pay pension insurance fee to the local social basic pension insurance agency according to the base and proportion prescribed by the local regulations. Such insurance fees payable were charged to the profit or loss for the period on an accrual basis. Local labour and social security departments will pay basic social pension to the staff upon their retirement. Qualified employees of the institutions of the Group in Hong Kong have participated in a locally-defined pension plan or defined benefit plan.

Besides basic social pension insurance, all employees of the Company also participate in the annuity scheme established by the Company in accordance with relevant policies of the annuity system of the PRC. The Company makes contributions to the annuity scheme at a certain proportion of the total wages of the employees, and the contributions are expensed as profit or loss when incurred.

For details of the payment of pension by the Company for its employees, please see Note VI. 13 "Employee benefits" to the consolidated financial statements.

11.8 Major Clients

During the Reporting Period, the combined revenue from the top five clients of the Company did not exceed 30% of its total revenue for 2017. There were no customer, employee or other person that have a significant impact on the Group or on which the Group's success depends.

11.9 Share Capital and Public Float

As at December 31, 2017, the Company had a total of 38,164,535,147 Shares in issue and 1,744 registered Shareholders. Please see "Changes in Share Capital and Information on Substantial Shareholders" in this report for details. As at the Latest Practicable Date, based on the information available to the Company and to the knowledge of the Directors, the public float of the Company was 35.55%, which was in compliance with the relevant laws and regulations and the requirement of the Listing Rules.

11.10 Pre-emptive Right

During the Reporting Period, none of the Shareholders was entitled to any pre-emptive right to subscribe for any Shares in accordance with applicable PRC laws and the Articles, and the Company did not have any share option arrangement.

11.11 Purchase, Sale and Redemption of Shares

During the Reporting Period, neither the Company nor its subsidiaries has purchased, sold or redeemed any of its listed securities.

11.12 Equity-linked Agreement

During the Reporting Period, except for the Offshore Preference Shares, the Company did not enter into any equity-linked agreement.

As approved by the CBRC and China Securities Regulatory Commission respectively, the Company issued USD3.2 billion 4.45% noncumulative perpetual Offshore Preference Shares on September 30, 2016. Pursuant to the requirements of the Administrative Measures on Financial Asset Management Companies and the Trial Administrative Measures on Administrative Measures on the Pilot Scheme of Preference Shares, the Company has set a trigger event term for the Offshore Preference Shares, upon the occurrence of which the Offshore Preference Shares would be irrevocably and compulsorily converted into H Shares. The trigger event refers to the earlier of: (a) the CBRC having concluded that without a decision on the conversion into ordinary shares, the Company would become non-viable; and (b) the relevant regulatory authorities such as MOF and the PBOC having concluded that without a decision on a public-sector injection of capital or equivalent support, the Company would become non-viable. Assuming trigger event for conversion happens and all the Offshore Preference Shares are converted at the initial conversion price into H Shares, the number of H Shares issued upon conversion would be 7,412,441,791 shares. As of the date of this report, there is no trigger event requiring the mandatory conversion of the Offshore Preference Shares into H Shares.

11.13 Issuance of Securities

11.13.1 Issuance of Securities of the Company

During the Reporting Period, issuance of securities of the Company is set out as follows:

Upon approval by CBRC pursuant to Yin Jian Fu [2016] No. 347 and PBOC approval Yin Shi Chang Xu Zhun Yu Zi [2017] No. 10, the Company issued financial bonds of RMB30 billion on April 12, 2017. The bonds are divided into three tranches, which are three-year fixed rate tranche (coupon rate 4.30%), five-year fixed rate tranche (coupon rate 4.40%) and ten-year fixed rate tranche (coupon rate 4.75%). The proceeds raised from the bonds are used to broaden the Company's operating capital, substitute the existing higher-cost liabilities, optimize the Company's assets and liabilities structure, and to promote various business developments and for other purpose as approved by the competent government authorities.

11.13.2 Issuance of Securities of Subsidiaries

The issuance of bonds by the subsidiaries of the Company during the Reporting Period is as follows:

In March 2017, China Cinda Finance Limited, a wholly-owned subsidiary of Cinda Hong Kong, issued USD300 million of fixed rate guaranteed senior keep well notes of 3 years with coupon rate of 3.00%, USD1.3 billion of fixed rate guaranteed senior keep well notes of 5 years with coupon rate of 3.65%, USD700 million of fixed rate guaranteed senior keep well notes of 7 years with coupon rate of 4.10%, USD700 million of fixed rate guaranteed senior keep well notes of 10 years. The proceeds raised were used as the operating capital, investment and other general corporate purpose.

In November 2017, China Cinda Finance Limited, a wholly-owned subsidiary of Cinda Hong Kong, issued USD545 million of fixed rate guaranteed senior notes of 20 years with coupon rate of 4.75%. The proceeds raised from the were used as the operating capital, investment and other general corporate purpose.

In June 2017, NCB Hong Kong issued USD1.2 billion of undated non-cumulative additional tier 1 capital instruments, coupon rate of 5.00% in Hong Kong. The proceeds raised from the instrument were used as capital replenishment and general corporate purpose.

Cinda Securities non-publicly issued RMB3 billion of subordinated bonds of 3 years with a coupon rate of 4.99% in February 2017; issued RMB3 billion of subordinated bonds of 3 years with a coupon rate of 5.12% in March 2017. The proceeds raised from the two instruments were used as capital replenishment and supplement to the long-term operating capital.

Cinda Securities non-publicly issued RMB2.5 billion of corporate bonds of 3 years with a coupon rate of 5.05% in July 2017. The proceeds raised from the bond were used as supplement to the operating capital.

Save as the above-mentioned issuance, during the Reporting Period, the Company and its subsidiaries did not issue or grant any shares, convertible bonds, options or other securities.

11.14 Material Interests and Short Positions

For details of material interests and short positions of Shareholders, please see “Changes in Share Capital and Information on Substantial Shareholders – Interests and Short Positions held by the Substantial Shareholders and Other Persons” in this report.

11.15 Use of Proceeds

During the Reporting Period, the use of proceeds from the Company’s issuance of new Shares under the general mandate to issue new H shares, granted by the 2015 annual general meeting, conformed to the use of proceeds disclosed in the relevant announcement, which was to replenish core tier-1 capital of the Company for supporting its business development.

11.16 Borrowings

The borrowings of the Group as of December 31, 2017 amounted to approximately RMB580.35 billion. Details of the borrowings are set out in Note VI.52 “Borrowings” to the consolidated financial statements.

11.17 Directors, Supervisors and Senior Management

Lists, biographical information and changes of the Directors, Supervisors and Senior Management of the Company are set out in “Directors, Supervisors and Senior Management” in this report. The daily operations of the Board are set out in “Corporate Governance Report” in this report.

11.18 Directors’, Supervisors’ and Chief Executive Officer’s Interests and Short Positions in Shares and Underlying Shares

As at December 31, 2017, none of the Directors, Supervisors or chief executive officer of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which was required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to Appendix 10 Model Code for Securities Transactions by Directors of Listed Companies to the Listing Rules.

11.19 Interests in Major Transactions, Arrangements or Contracts and Service Contracts of Directors and Supervisors

In 2017, none of the Directors and Supervisors of the Company (or their connected entities) had any material interests, directly or indirectly, in any major transactions, arrangements or contracts (except service contracts) regarding the business of the Group entered into by the Company or any of its controlling companies, subsidiaries or fellow subsidiaries.

None of the Directors and Supervisors of the Company had entered into any service contract with the Company which was terminable by the Company within one year without payment of compensation (other than statutory compensation).

11.20 Interests of Directors in Business Competing with the Company

During the Reporting Period, none of the Directors held any interest in business which directly or indirectly competed, or was likely to compete with the business of the Company.

11.21 Material Contracts with Controlling Shareholders

During the Reporting Period, the Company and its subsidiaries did not enter into any contract (including material contracts for the provision of services) with the controlling shareholder or any of its subsidiaries.

11.22 Management Contracts

During the Reporting Period, the Company did not enter into any management contracts with respect to the entire or primary business of the Company.

11.23 Remuneration Policy of Directors, Supervisors and Senior Management

The remuneration policy of Directors, Supervisors and Senior Management of the Company is in compliance with the “Interim Measures on Management of Remuneration of Representatives of Central Financial Enterprises” promulgated by the MOF. The remuneration policy of Directors, Supervisors and Senior Management consists of incentive and restriction based on their performance and the risks and responsibilities of their positions and is subject to government supervision and adjustment along with market condition. The remuneration system comprises basic salary, bonus and other benefits, as well as corporate pension scheme in accordance with relevant national requirements. During the Reporting Period, the Company had no arrangement for any stock incentive plan for Directors, Supervisors and Senior Management.

11.24 Relationship between Directors, Supervisors and Senior Management

There was no financial, business or family relationship, or other relationships which is required to be disclosed between any of the Directors, Supervisors and Senior Management of the Company.

11.25 Indemnity for Directors, Supervisors and Senior Management

According to the Articles, the Company may establish a liability insurance system for Directors, Supervisors and Senior Management as necessary in order to lower the risk exposure arising from their normal discharge of obligations. During the Reporting Period, the Company maintained the liability insurance for Directors, Supervisors and Senior Management to protect them against any potential liability arising from the Group’s activities to which they may be held liable.

During the Reporting Period, there was no permitted indemnity provision for the benefit of Directors.

11.26 Connected Transactions

During the Reporting Period, the Company did not conduct any connected transactions or continuing connected transactions required to be reported, announced or approved by independent shareholders under Chapter 14A “Connected Transactions” of the Listing Rules. Details of related party transactions as defined under the IFRS are set out in Note VI.74 “Related party transactions” to the consolidated financial statements, which do not constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

11.27 Compliance with Relevant Laws and Regulations

During the Reporting Period, the Company has complied with the relevant laws and regulations which are material to its business and operation in all material respects, and obtained all material qualifications and permits necessary for its operations in accordance with relevant laws and regulations.

11.28 Auditors

The financial reports of the Company for 2017 prepared under the IFRS and PRC GAAP has been audited by Ernst & Young and Ernst & Young Hua Ming LLP, respectively.

11.29 Statement for Changes of Auditors in the Past Three Years

In accordance with relevant requirements under the Administrative Measures of the Tendering Procedures for the Appointment of Accounting Firms by Financial Enterprises (Provisional) (Caijin [2010] No. 169) by the MOF, the term of appointment of an accounting firm by a financial enterprise shall not exceed five years in principle. The terms of service of Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu, the previous domestic and international auditors of the Company, respectively, have reached the maximum term stipulated in the above regulation. Therefore, as approved at the first extraordinary general meeting for 2015 and the annual general meeting for 2014, the Company appointed Ernst & Young Hua Ming LLP and Ernst & Young as its domestic and international auditors for 2015, respectively, to provide the audit of the annual financial statements, review of the interim financial statements, audit of internal control and other relevant services to the Company for 2015.

As approved at the annual general meeting for 2016 on June 30, 2017, the Company re-appointed Ernst & Young Hua Ming LLP and Ernst & Young as its domestic and international auditors for 2017, respectively, to provide the audit of the annual financial statements, review of the interim financial statements, audit of internal control and other relevant services to the Company for 2017.

By Order of the Board of Directors
Hou Jianhang
Chairman

March 27, 2018

12 REPORT OF THE BOARD OF SUPERVISORS

In 2017, pursuant to the national laws, regulations, regulatory requirements and the requirements of the Articles, and in response to the spirits of the 19th National Congress of the CPC and the National Financial Work Conference, the Board of Supervisors strictly implemented the regulatory requirements and to effectively carry through the belief in “Creating Value through Compliance, Enhancing Efficiency through Internal Control”. Based on the operation development of the Company, the Board of Supervisors adhered to its original intention, focused on its mission and played its due role on the continuous improvement of corporate governance, implementation of strategic transformation and healthy development of the Company by implementing a Comprehensive Risk Management Guideline, promoting system improvement, enhancing duty performance efficiency, facilitating the reasonable resource allocation and strengthening the ability of comprehensive supervision.

12.1 Major Work Completed

Diligently carrying out the supervision of duty-performance. The Board of Supervisors paid attention to the performance of the Board and the Senior Management in implementing the national macro-economic policies, serving the supply-side structural reform, supporting the real economy and implementing the regulatory requirements. According to the regulatory requirements and the requirement of including the Party building clauses in the articles of association, the Board of Supervisors made amendment to the Measures on the Performance Supervision of the Board of Supervisors, optimized the supervision methods, emphasized on the effectiveness of duty performance, and improve the completeness and effectiveness of performance supervision. Based on core missions of the companies, the Board of Supervisors issued the Key Areas of the Performance Supervision of Directors and Senior Management for 2017 concentrating on the implementation of strategic plans of the Company, comprehensive risk management and improvement of internal control system. The Board of Supervisors also issued performance supervision opinions of the Board, the Senior Management and its members, and reported the opinions in accordance with relevant requirements.

Strengthening the supervision of risk internal control. The Board of Supervisors sought to promote compliant operation, strengthen awareness on risk control, and consolidated internal risk control mechanism. The Board of Supervisors also facilitated the improvement of the comprehensive risk management system, the formulation and implementation of the Company’s risk management strategies, risk appetite and risk limit policies. The Board of Supervisors also urged the Board of Directors and the management to conduct regular assessment on the effectiveness of risk management, and facilitated the comprehensive implementation of risk management duties. The Board of Supervisors proposed to effectively integrate risk management with internal control and enhance the overall efficiency of collaborative supervision, thereby facilitating the continuous improvement of internal control system of the Company.

Diligently performing financial supervision. The Board of Supervisors closely followed up with the impact of IFRS 9 implementation on the financial work of the Company, and diligently reviewed periodic reports, as well as followed up with the latest in operating conditions and audit reports, and focused on the compliance of report preparation, reviewing and disclosure, and analyzed all significant issues that may affect the authenticity, accuracy and completeness of the financial report. The Board of Supervisors also conducted in-depth investigations and formulated reports on the tax planning and management of the Company to allow the Group to reasonably estimate its tax costs so as to effectively prevent and contain tax risks.

Seeking to improve its own operation. Under the regulatory situation of strict supervision and strong accountability, the Board of Supervisors conducted in-depth investigation and research, and uncovering the key points of supervision to put forward targeted suggestions. The Board of Supervisors actively participated in duty performance training and paid attention to working communications with the board of supervisors of industry peers and subsidiaries to constantly improve the ability of supervisors to perform their duties. The Board of Supervisors continuously improved its own establishment in accordance with regulatory requirements and based on its practice.

Performing supervisory duties according to law. In accordance with the regulatory requirements and the actual work requirements, the Board of Supervisors conducted revision on governance systems such as the Articles (related to the Board of Supervisors), “Rules of Procedures for the Meetings of the Board of Supervisors” and “Working Rules for the Special Committee of the Board of Supervisors” so as to constantly improve the supervision mechanism of the Board of Supervisors. In 2017, the members of the Board of Supervisors had diligently performed their duties, and conscientiously reviewed relevant proposals, in addition they effectively performed their duties of supervision with attention on the application of closed-loop thinking in management and actively promoted the implementation of regulatory opinions.

12.2 Independent Opinions on Relevant Matters

Lawful operation

During the Reporting Period, operation of the Company was in compliance with laws and regulations, and its decision-making procedures conformed to relevant laws, regulations and the Articles. The Board of Supervisors had no objection to the matters submitted to the Shareholders' general meeting for resolution. The Board duly implemented the resolutions approved at the Shareholders' general meetings. Directors and Senior Management duly performed their duties. The Board of Supervisors is not aware of any breach of laws, regulations and the Articles or any act detrimental to the interests of the Company by any of the Directors or Senior Management in performing their duties.

Financial reports

The financial reports for the year reflected the financial position and operating results of the Company truthfully and fairly.

Opinions on the performance evaluation of Directors and Senior Management

The results of the performance evaluation of all Directors and members of Senior Management for 2017 were competent.

Internal control

During the Reporting Period, the Company continued to improve internal control and the Board of Supervisors had no objection to the evaluation opinions on internal control of the Company for 2017.

Use of proceeds

During the Reporting Period, the Company's use of proceeds from the issuance of Offshore Preference Shares and the issuance of new H shares under the general mandate granted to the Board by the 2015 annual general meeting was in compliance with the use undertaken by the Company.

By Order of the Board of Supervisors

Gong Jiande

Chairman of the Board of Supervisors

March 27, 2018

13 SIGNIFICANT EVENTS

13.1 Material Litigation and Arbitration

During the Reporting Period, the Group was not involved in any litigation and arbitration which may materially and adversely affect its business, financial condition and operating results.

13.2 Major Acquisition and Disposal of Assets and Merger

During the Reporting Period, the Group did not enter into any material acquisition, disposal of assets or merger of enterprises.

13.3 Appropriation of Funds by the Controlling Shareholder and other Related Parties

The controlling shareholder and other related parties have not appropriated the funds of the Company.

13.4 Implementation of Share Incentive Plan

During the Reporting Period, the Company did not implement any share incentive plan.

13.5 Major Contracts and Implementation

13.5.1 Major Custody, Contracting and Leasing

During the Reporting Period, the Company did not enter into any major contract relating to the custody, contracting and leasing of assets of other companies or custody, contracting and leasing of assets of the Company by other companies.

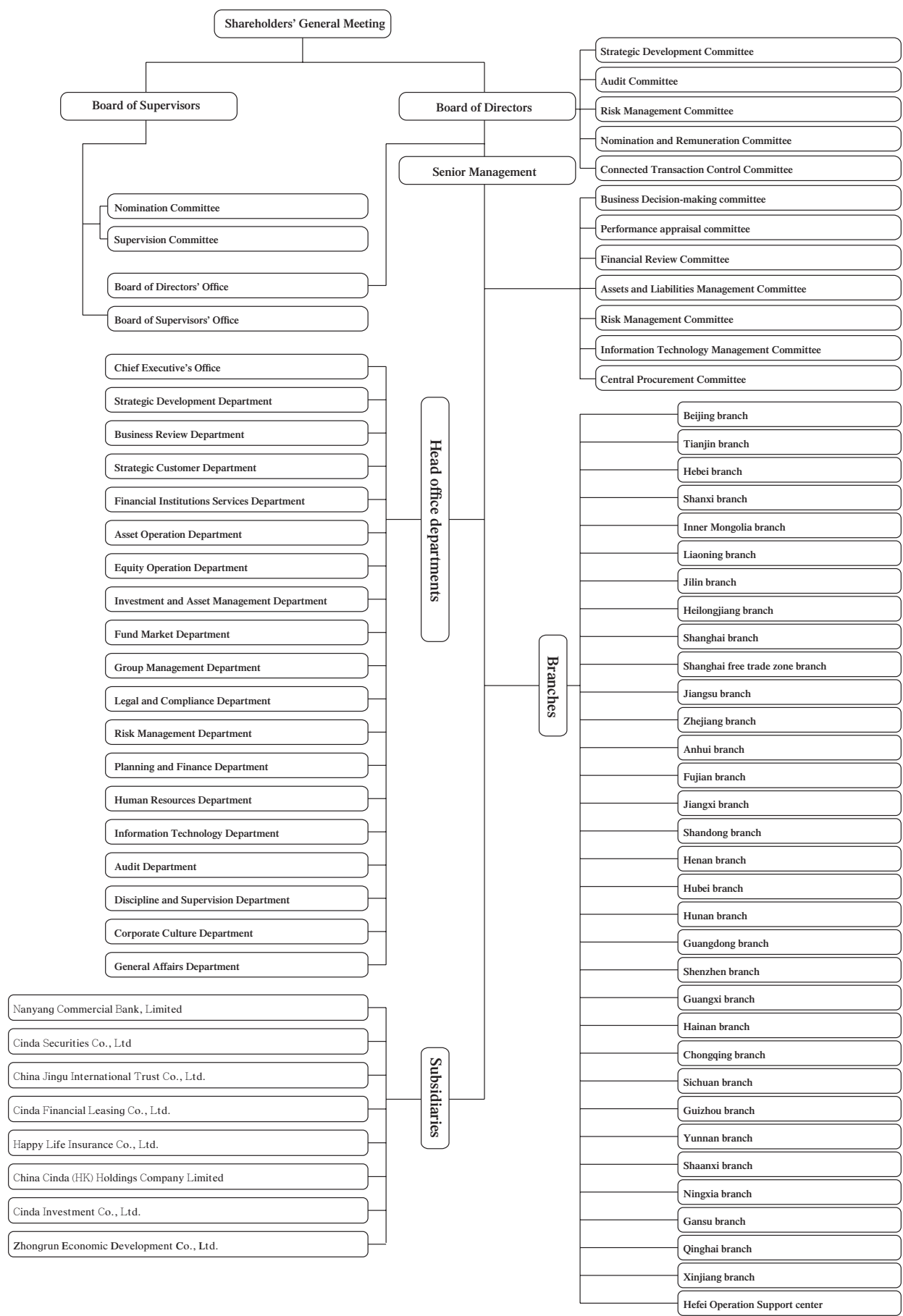
13.5.2 Material Guarantees

During the Reporting Period, the Company did not make any material guarantee which is required to be disclosed.

13.6 Sanctions Imposed on the Company and Directors, Supervisors and Senior Management

During the Reporting Period, none of the Company or any of the Directors, Supervisors and Senior Management was subject to any investigation or administrative sanctions by securities regulatory authorities, publicly censured by any stock exchange, as well as other penalty by other regulatory authorities with material impact on the operation of the Company, or prosecuted for criminal liabilities by the judicial authority.

14 ORGANIZATIONAL CHART



15 AUDIT REPORT AND FINANCIAL STATEMENTS

INDEPENDENT AUDITOR’S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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INDEPENDENT AUDITOR’S REPORT

TO THE SHAREHOLDERS OF CHINA CINDA ASSET MANAGEMENT CO., LTD.

(Established in the People’s Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of China Cinda Asset Management Co., Ltd. (the “Company”) and its subsidiaries (the “Group”) set out on pages 152 to 423, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter	How our audit addressed the key audit matter
<i>(1) Valuation of financial instruments</i>	
Financial assets carried at fair value represented a significant portion of total assets. The fair values of level 2 and level 3 financial instruments are determined through the application of valuation techniques which often involve the exercise of judgement by the management and the use of assumptions and estimates. The Group's disclosures about accounting judgements and estimation and the details of these financial assets are included in note V.2 Fair value of financial instruments and note VI.76 Fair values of financial instruments.	Our audit procedures included assessing and testing the design and operating effectiveness of controls over the identification, measurement and management of valuation risk. We compared observable inputs, such as quoted bid prices in an active market, against independent sources and externally available market data and re-performed valuations on a sample basis to evaluate the valuation techniques, assumptions and estimates adopted by the Group with the assistance of our internal valuation specialists. Furthermore, we checked the appropriateness of related disclosures including the disclosure of valuation sensitivity and fair value hierarchy.
<i>(2) Impairment of financial assets</i>	
The impairment of loans and advances and financial assets classified as receivables is estimated by the management through the application of judgement and use of highly subjective assumptions. The management adopts individual impairment assessment approach for individually significant assets, and adopts collective impairment assessment approach for assets not individually significant or not individually impaired. Under the individual impairment assessment approach, assessment of future cash flows is based on the assumptions upon assessing the amount, timing and likelihood of estimated future cash flows. Under the collective impairment assessment approach, assessment of future cash flows for asset portfolios is based on historical loss experience of asset portfolios with similar credit risk characteristics, with adjustments based on the impact from changes and uncertainties in the macro-economic environment. The Group's disclosures about accounting judgements and estimation of impairment of financial assets and the details of these financial assets are included in note V.5 Impairment of loans and advances to customers and financial assets classified as receivables, note VI.30 Financial assets classified as receivables, note VI.31 Loans and advances to customers and note VI.75.1 Credit risk.	Our audit procedures included assessing and testing the design and operating effectiveness of controls over the approval, recording and monitoring of the impairment of loans and advances and financial assets classified as receivables. We tested the discounted cash flow models and the related assumptions used in individual impairment assessment by assessing the amount, timing and likelihood of estimated future cash flows, including cash flows from collateral. We evaluated the parameters and assumptions used in the collective impairment assessment approach adopted by the Group, including assumptions on the loss identification period, migration rate, loss ratio and impact of macro-economic changes for various types of asset portfolios. We compared them with historical loss data for asset portfolios, observable economic data, market information and industry trends. Furthermore, we checked the appropriateness of related disclosures including the disclosure of credit risk and impairment allowance.

Key audit matter	How our audit addressed the key audit matter
<i>(3) Assessment of control, joint control and significant influence</i> The Group makes significant judgements to assess whether the Group has control over structured entities, and joint control or significant influence over the structured entities and other investees. • The Group has interests in various structured entities including private equity funds, trusts, asset management plans, wealth management products and mutual funds. The consolidation of those entities is determined by the Group on the basis of control, which involves management's judgment upon power over the structured entities' relevant activities, exposure to variable returns from its involvement with the structured entities, and the ability to use the power to affect the amount of its returns; • The joint control over the structured entities and other investees is determined by the Group's assessment of the existence of sharing of control. The assessment involves judgement on whether decisions about the relevant activities require the unanimous consent of the parties sharing control; • The significant influence over the structured entities and other investees is determined by the Group's assessment of its power to participate in the structured entities and other investees' financial and operating policy decisions. The assessment involves significant judgment based on factors such as the structured entities and other investees' policy-making process, composition of board of directors or other governing body, change in ownership and existence of contractual arrangements.	
We evaluated and tested the design and operating effectiveness of the key controls related to the Group's assessment of whether it has control, joint control or significant influence over structured entities and other investees.	
We assessed the Group's analysis and conclusions on whether or not it controls structured entities based on the Group's analysis on its power over structured entities' relevant activities, and the magnitude and variability of variable returns from its involvement with structured entities. We also evaluated the appropriateness of the Group's assessment on its legal or constructive obligation to absorb loss of structured entities by reviewing relevant agreements or contracts, and whether the Group has provided liquidity support or credit enhancement to structured entities. Furthermore, we checked the appropriateness of related disclosures including interests in consolidated and unconsolidated structured entities.	
We also assessed the Group's analysis and conclusions on the existence of joint control or significant influence over the structured entities and other investees. We made inquiries and inspections of the relevant contracts and agreements of investments to evaluate the Group's assessment of its power to joint control over the structured entities and other investees' relevant activities, or to participate in the structured entities and other investees' financial and operating policy decisions. We also reviewed the minutes of the meetings of the investors or shareholders, the board of directors or other governing bodies of the structured entities and other investees. We evaluated the Group's reassessment of its influence over the structured entities and other investees on a continuous basis if facts and circumstances indicated that there were changes. Furthermore, we checked the appropriateness of related disclosures of interests in associates and joint ventures.	

Key audit matter	How our audit addressed the key audit matter
Due to the significance of these investments to the Group and the complexity of judgement exercised by management, this is considered as a key audit matter. The Group's disclosures about accounting judgments and estimation and the details of these equity investments are included in note V.8 Control on structured entities, note V.9 Judgment on joint control, note V.10 Judgment on significant influence and note VI.37 Interests in subsidiaries, note VI.39 Interests in consolidated structured entities and note VI.40 Interests in associates and joint ventures.	
(4) Transfer of financial assets	
Distressed asset management is one of the Group's core businesses, which involves the management's judgement upon whether the transfer should be applied to part of a financial asset or the financial asset in its entirety, as well as the evaluation of whether, and to what extent, transfer is appropriate. Considering the significant impact and the usage of judgement and subjective estimation by the management in relation to accounting treatment, we treated transfer of financial assets as a key audit matter. The Group's disclosures about accounting judgements and estimation and the details of these transfers of financial assets are included in note V.6 Transfer of financial assets and note VI.72 Transfers of financial assets.	Our audit procedures included assessing and testing the design and operating effectiveness of controls over judgment and estimation involved in the transfer of financial assets. We obtained and reviewed related contracts and agreements and assessed whether the Group should derecognize financial assets based on relevant facts and circumstances, mainly including the nature and purpose of the financial assets transferred, the Group's exposure, before and after the transfer, to the variability in the amounts and timing of the net cash flows of the transferred assets, as well as whether the Group had retained the control of the transferred assets. We checked related agreements for transfer of significant financial assets to assess whether the financial assets should be derecognized. Furthermore, we checked the appropriateness of related disclosures of transfer of financial assets.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ng Chi Keung.

Ernst & Young

Certified Public Accountants

Hong Kong

March 27, 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

		Year ended December 31	
	Notes VI	2017	2016
Income from distressed debt assets classified as receivables	1	17,773,020	15,539,245
Fair value changes on distressed debt assets	2	8,266,362	5,716,228
Fair value changes on other financial instruments	3	2,582,223	2,656,271
Investment income	4	29,465,747	17,991,337
Net insurance premiums earned	5	19,266,928	16,635,753
Interest income	6	20,640,790	14,506,497
Revenue from sales of inventories	7	14,425,517	10,954,587
Commission and fee income	8	4,218,924	3,848,071
Net gains on disposal of subsidiaries, associates and joint ventures	9	3,659,160	996,972
Other income and other net gains or losses	10	(264,043)	2,812,266
Total		120,034,628	91,657,227
Interest expense	11	(35,911,078)	(23,223,843)
Insurance costs	12	(20,913,659)	(17,549,048)
Employee benefits	13	(7,411,338)	(6,109,651)
Purchases and changes in inventories	7	(10,355,808)	(8,455,785)
Commission and fee expense	14	(2,404,861)	(2,122,362)
Taxes and surcharges		(687,361)	(1,302,625)
Depreciation and amortization expenses		(853,972)	(740,425)
Other expenses		(4,293,978)	(4,040,268)
Impairment losses on assets	15	(11,404,680)	(4,813,697)
Total		(94,236,735)	(68,357,704)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

		Year ended December 31	
	<i>Notes VI</i>	2017	2016
Change in net assets attributable to other holders of consolidated structured entities	39	<u>(1,284,748)</u>	<u>(2,331,743)</u>
Profit before share of results of associates and joint ventures and tax		24,513,145	20,967,780
Share of results of associates and joint ventures		<u>1,617,671</u>	<u>797,722</u>
Profit before tax	16	26,130,816	21,765,502
Income tax expense	17	<u>(7,372,990)</u>	<u>(5,783,491)</u>
Profit for the year		<u>18,757,826</u>	<u>15,982,011</u>
Profit attributable to:			
Equity holders of the Company		18,122,390	15,512,155
Non-controlling interests		<u>635,436</u>	<u>469,856</u>
		<u>18,757,826</u>	<u>15,982,011</u>
Earnings per share attributable to equity holders of the Company (Expressed in RMB Yuan per share)	18		
– Basic		0.45	0.43
– Diluted		<u>0.45</u>	<u>0.43</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

	Year ended December 31	
	2017	2016
Profit for the year	<u>18,757,826</u>	<u>15,982,011</u>
Other comprehensive income/(expense)		
Items to be reclassified subsequently to profit or loss:		
Fair value changes on available-for-sale financial assets		
Fair value changes arising during the year	(2,832,727)	(2,382,171)
Amounts reclassified to profit or loss upon disposal	811,269	(167,288)
Amounts reclassified to profit or loss upon impairment	392,550	(255,689)
Income tax effect	<u>229,616</u>	<u>378,691</u>
	<u>(1,399,292)</u>	<u>(2,426,457)</u>
Effective portion of changes in fair value of hedging instruments arising during the year	(57,665)	57,665
Income tax effect	<u>14,416</u>	<u>(14,416)</u>
	<u>(43,249)</u>	<u>43,249</u>
Exchange differences arising on translation of foreign operations	<u>(1,222,837)</u>	<u>726,599</u>
Share of other comprehensive income/(expense) of associates and joint ventures	93,611	(60,015)
Income tax effect	<u>(5,101)</u>	<u>—</u>
	<u>(2,576,868)</u>	<u>(1,716,624)</u>
Items not to be reclassified subsequently to profit or loss:		
Remeasurement of supplementary retirement benefits	2,647	1,457
Income tax effect	<u>(437)</u>	<u>(240)</u>
	<u>2,210</u>	<u>1,217</u>
Other comprehensive expense for the year, net of income tax	<u>(2,574,658)</u>	<u>(1,715,407)</u>
Total comprehensive income for the year	<u><u>16,183,168</u></u>	<u><u>14,266,604</u></u>
Total comprehensive income attributable to:		
Equity holders of the Company	15,877,619	14,962,054
Non-controlling interests	<u>305,549</u>	<u>(695,450)</u>
	<u><u>16,183,168</u></u>	<u><u>14,266,604</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

		As at December 31	
	Notes VI	2017	2016
Assets			
Cash and balances with central banks	23	21,511,080	17,367,965
Deposits with banks and financial institutions	24	54,429,215	75,801,266
Deposits with exchanges and others	25	1,124,895	2,047,567
Placements with banks and financial institutions	26	18,160,410	26,277,582
Financial assets at fair value through profit or loss	27	213,795,859	149,045,496
Financial assets held under resale agreements	28	60,109,388	41,973,962
Available-for-sale financial assets	29	273,182,692	212,495,886
Financial assets classified as receivables	30	234,226,871	198,787,226
Loans and advances to customers	31	312,117,520	294,936,591
Accounts receivable	32	3,729,135	3,522,114
Held-to-maturity investments	34	13,227,363	12,635,621
Properties held for sale	35	37,283,802	44,476,384
Investment properties	36	3,298,278	1,616,904
Interests in associates and joint ventures	40	69,851,065	19,563,600
Property and equipment	42	9,658,346	10,352,795
Goodwill	43	22,002,517	23,524,019
Other intangible assets	44	4,084,927	4,511,084
Deferred tax assets	45	5,150,810	5,877,907
Assets classified as held for sale	59	–	6,018,894
Other assets	46	29,993,376	23,648,060
Total assets		<u>1,386,937,549</u>	<u>1,174,480,923</u>
Liabilities			
Borrowings from central bank	47	986,058	986,058
Accounts payable to brokerage clients	48	12,393,813	16,272,095
Financial liabilities at fair value through profit or loss	49	6,794,129	6,511,691
Financial assets sold under repurchase agreements	50	6,630,267	7,872,213
Placements from banks and financial institutions	51	16,431,551	23,581,181
Borrowings	52	580,352,070	450,514,763
Due to customers	53	226,220,786	204,629,039
Deposits from banks and financial institutions	54	19,259,266	13,304,792
Accounts payable	55	3,220,939	3,053,860
Investment contract liabilities for policyholders	56	19,961,369	27,193,179
Tax payable	57	3,397,502	2,391,212
Insurance contract liabilities	58	39,566,164	31,186,027
Bonds issued	60	206,482,644	152,497,560
Deferred tax liabilities	45	2,104,573	2,272,446
Liabilities classified as held for sale	59	–	3,628,613
Other liabilities	61	74,871,756	80,616,173
Total liabilities		<u>1,218,672,887</u>	<u>1,026,510,902</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AS AT DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

		As at December 31	
	Notes VI	2017	2016
Equity			
Share capital	62	38,164,535	38,164,535
Other equity instruments	63	21,281,215	21,281,215
Capital reserve	64	21,236,051	21,230,931
Other comprehensive income/(expense)	65	(1,685,551)	559,220
Surplus reserve	66	6,942,226	5,548,247
General reserve	67	12,506,625	9,744,133
Retained earnings		50,949,383	42,688,440
Equity attributable to equity holders of the Company		149,394,484	139,216,721
Non-controlling interests		18,870,178	8,753,300
Total equity		168,264,662	147,970,021
Total equity and liabilities		1,386,937,549	1,174,480,923

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

The consolidated financial statements are authorized for issue by the Board of Directors and signed on its behalf by:



CHAIRMAN



PRESIDENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

	Equity attributable to equity holders of the Company							Subtotal	Non-controlling interests	Total
	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings			
	(Note VI.62)	(Note VI.63)	(Note VI.64)	(Note VI.65)	(Note VI.66)	(Note VI.67)				
As at January 1, 2017	38,164,535	21,281,215	21,230,931	559,220	5,548,247	9,744,133	42,688,440	139,216,721	8,753,300	147,970,021
Profit for the year	-	-	-	-	-	-	18,122,390	18,122,390	635,436	18,757,826
Other comprehensive expense for the year	-	-	-	(2,244,771)	-	-	-	(2,244,771)	(329,887)	(2,574,658)
Total comprehensive income/ (expense) for the year	-	-	-	(2,244,771)	-	-	18,122,390	15,877,619	305,549	16,183,168
Capital securities issued	-	-	-	-	-	-	-	-	8,216,193	8,216,193
Capital contribution from non-controlling interests of subsidiaries	-	-	4,900	-	-	-	-	4,900	3,128,087	3,132,987
Acquisition of additional interests in subsidiaries	-	-	(286)	-	-	-	-	(286)	(25,487)	(25,773)
Disposal of interests in subsidiaries	-	-	-	-	-	-	-	-	(1,343,103)	(1,343,103)
Appropriation to surplus reserve	-	-	-	-	1,393,979	-	(1,393,979)	-	-	-
Appropriation to general reserve	-	-	-	-	-	2,762,492	(2,762,492)	-	-	-
Dividends recognized as distribution	-	-	-	-	-	-	(5,704,976)	(5,704,976)	-	(5,704,976)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(164,361)	(164,361)
Others	-	-	506	-	-	-	-	506	-	506
As at December 31, 2017	<u>38,164,535</u>	<u>21,281,215</u>	<u>21,236,051</u>	<u>(1,685,551)</u>	<u>6,942,226</u>	<u>12,506,625</u>	<u>50,949,383</u>	<u>149,394,484</u>	<u>18,870,178</u>	<u>168,264,662</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

	Equity attributable to equity holders of the Company									
	Share capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Subtotal	Non-controlling interests	Total
	(Note VI.62)	(Note VI.63)	(Note VI.64)	(Note VI.65)	(Note VI.66)	(Note VI.67)				
As at January 1, 2016	36,256,690	–	17,666,143	1,109,321	4,292,386	6,739,459	35,646,222	101,710,221	9,183,708	110,893,929
Profit for the year	–	–	–	–	–	–	15,512,155	15,512,155	469,856	15,982,011
Other comprehensive expense for the year	–	–	–	(550,101)	–	–	–	(550,101)	(1,165,306)	(1,715,407)
Total comprehensive income/ (expense) for the year	–	–	–	(550,101)	–	–	15,512,155	14,962,054	(695,450)	14,266,604
Shares issued	1,907,845	–	3,511,588	–	–	–	–	5,419,433	–	5,419,433
Capital contribution from other equity instrument holders	–	21,281,215	–	–	–	–	–	21,281,215	–	21,281,215
Capital contribution from non-controlling interests of subsidiaries	–	–	(650)	–	–	–	–	(650)	299,594	298,944
Acquisition of additional interests in subsidiaries	–	–	17,586	–	–	–	–	17,586	(27,998)	(10,412)
Disposal of partial interests in subsidiaries	–	–	36,264	–	–	–	–	36,264	156,610	192,874
Disposal of interests in subsidiaries	–	–	–	–	–	–	–	–	(58,092)	(58,092)
Appropriation to surplus reserve	–	–	–	–	1,255,861	–	(1,255,861)	–	–	–
Appropriation to general reserve	–	–	–	–	–	3,004,674	(3,004,674)	–	–	–
Dividends recognized as distribution	–	–	–	–	–	–	(4,209,402)	(4,209,402)	–	(4,209,402)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(105,072)	(105,072)
As at December 31, 2016	38,164,535	21,281,215	21,230,931	559,220	5,548,247	9,744,133	42,688,440	139,216,721	8,753,300	147,970,021

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

	Year ended December 31	
	2017	2016
OPERATING ACTIVITIES		
Profit before tax	26,130,816	21,765,502
Adjustments for:		
Impairment losses on assets	11,404,680	4,813,697
Depreciation of property and equipment, and investment properties	518,473	494,942
Amortization of intangible assets and other long-term assets	335,499	245,483
Share of results of associates and joint ventures	(1,617,671)	(797,722)
Net gains on disposal of property and equipment, investment properties, other intangible assets and other assets	(109,738)	(30,420)
Net gains on disposal of subsidiaries and associates and joint ventures	(3,659,160)	(996,972)
Fair value changes on financial assets	638,908	(514,743)
Investment income	(29,465,747)	(17,991,337)
Borrowing costs	11,520,780	15,238,858
Change in reserves for insurance contracts	8,471,547	5,142,162
Operating cash flows before movements in working capital	24,168,387	27,369,450
Decrease in balances with central banks and deposits with banks and financial institutions	4,829,445	4,274,645
Increase in financial assets at fair value through profit or loss	(65,884,897)	(17,435,298)
(Increase)/decrease in financial assets held under resale agreements	(9,985,487)	701,395
Increase in financial assets classified as receivables	(33,599,649)	(15,417,996)
Increase in loans and advances to customers	(19,055,739)	(49,129,951)
Increase in accounts receivable	(85,035)	(405,917)
Decrease/(increase) in properties held for sale	6,464,022	(13,427,058)
Increase in due to customers and deposits from banks and financial institutions	27,546,221	36,408,754
Decrease in accounts payable to brokerage clients	(3,878,282)	(5,261,086)
(Decrease)/increase in financial assets sold under repurchase agreements	(2,344,213)	659,122
Increase in borrowings	121,801,240	98,172,457
Decrease in accounts payable	(29,389)	(552,375)
Decrease/(increase) in other operating assets	15,382,711	(15,211,264)
(Decrease)/increase in other operating liabilities	(6,124,222)	11,788,415
Cash inflow from operations	59,205,113	62,533,293
Income taxes paid	(5,473,796)	(6,189,486)
NET CASH INFLOW FROM OPERATING ACTIVITIES	53,731,317	56,343,807

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

	Year ended December 31	
	2017	2016
INVESTING ACTIVITIES		
Cash receipts from disposals and recovery of investment securities	192,463,810	92,271,577
Dividends received from investment securities	9,778,224	4,413,697
Dividends received from associates and joint ventures	474,342	128,390
Interest received from investment securities	4,871,946	3,560,115
Cash receipts from disposals of property and equipment, investment properties, other intangible assets and other assets	443,504	591,217
Net cash flows from disposals of subsidiaries	279,202	5,842,965
Net cash flows from disposals of associates and joint ventures	3,079,865	680,164
Cash payments to acquire investment securities	(247,664,454)	(174,716,250)
Net cash outflows due to acquisition of subsidiaries	–	(28,211,534)
Net cash flows from consolidated structured entities	(10,565,179)	(13,960,893)
Cash payments for purchase of property and equipment, investment properties, other intangible assets and other assets	(1,272,634)	(1,295,061)
Cash payments for establishment and acquisition of interests in associates and joint ventures	(26,730,361)	(5,341,694)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(74,841,735)	(116,037,307)
FINANCING ACTIVITIES		
Net proceeds from issue of common shares	–	5,419,433
Net proceeds from issue of preference shares	–	21,281,215
Net proceeds from issue of capital securities	8,216,193	–
Capital contribution from non-controlling interests of subsidiaries of the Company	3,132,987	298,944
Proceeds from disposal of partial interests in subsidiaries that does not involve loss of control	–	192,874
Cash payments to acquire additional interests in subsidiaries	(25,773)	(10,412)
Cash receipts from borrowings raised	25,768,074	64,206,394
Cash receipts from bonds issued	75,127,202	35,900,000
Cash receipts from financial assets sold under repurchase agreements	1,123,267	401,500
Cash repayments on financial assets sold under repurchase agreements	(21,000)	(3,757,354)
Cash repayments of borrowings	(17,732,007)	(28,979,738)
Cash repayments of bonds	(20,492,989)	(596,710)
Interest expenses on borrowings paid	(10,407,288)	(9,694,538)
Dividends paid	(5,700,353)	(4,237,266)
Dividends paid to non-controlling interests of subsidiaries	(164,267)	(105,517)
Cash payments for transaction cost of bonds issued	(345,711)	(80,931)
NET CASH INFLOW FROM FINANCING ACTIVITIES	58,478,335	80,237,894

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

		Year ended December 31	
	<i>Note VI</i>	2017	2016
NET INCREASE IN CASH AND CASH EQUIVALENTS		37,367,917	20,544,394
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		84,107,649	63,102,681
Effect of foreign exchange changes		<u>(1,545,225)</u>	<u>460,574</u>
 CASH AND CASH EQUIVALENTS AT END OF THE YEAR	 <i>69</i>	 <u>119,930,341</u>	 <u>84,107,649</u>
 Net cash flows from operating activities include:			
Interest received		20,640,790	14,506,497
Interest paid		<u>25,675,046</u>	<u>10,316,728</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

I. CORPORATE AND GROUP INFORMATION

China Cinda Asset Management Co., Ltd. (the “Company”) was transformed from China Cinda Asset Management Corporation (the “Former Cinda”), which was a wholly state-owned financial enterprise established in the People’s Republic of China (the “PRC”) by the Ministry of Finance (the “MOF”) on April 19, 1999 as approved by the State Council of the PRC (the “State Council”). On June 29, 2010, China Cinda Asset Management Co., Ltd. was established after the completion of the financial restructuring of the Former Cinda as approved by the State Council. As at December 31, 2017, the MOF directly owned 64.45% of the share capital of the Company.

The Company has financial services certificate No. J0004H111000001 issued by the China Banking Regulatory Commission (the “CBRC”), and business license No. 91110000710924945A issued by the State Administration of Industry and Commerce of the PRC. The registered office of the Company is located at No.1 Building, 9 Naoshikou Street, Xicheng District, Beijing, the PRC.

The Company was listed on the Stock Exchange of Hong Kong Limited on December 12, 2013.

The Company and its subsidiaries are collectively referred to as the Group. The principal activities of the Group comprise banking business, acquiring and entrusting to manage, invest and dispose of both financial and non-financial institution distressed assets; receivership; foreign investment; securities and futures dealing; financial bond issuance; inter-bank borrowing and lending; commercial financing for other financial institutions; approved asset securitization business; financial institutions custody; closing and liquidation of business; consulting and advisory business on finance, investment, legal and risk management; asset and project evaluation; insurance; fund management; asset management; trust; financial leasing services; real estate and industrial investments and other businesses approved by the CBRC or other regulatory bodies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

II. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards issued by IASB, and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets available for sale, financial assets, financial liabilities at fair value through profit or loss (including derivative financial instruments) and insurance contract liabilities. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Impairment is recognized if there is objective evidence of impairment of assets.

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

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company, and all values are rounded to the nearest thousand, except when otherwise indicated.

III. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In current year, the Group has applied the following revised standards, amendments and interpretations that are effective for the Group's annual period beginning on January 1, 2017.

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

The application of the above revised standards has had no material effect on the amounts reported and disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

III. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

III. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

III. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

III. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

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

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

Annual Improvements to IFRSs 2014-2016 cycle was issued in December 2016. The annual improvements process was established to make non-urgent but necessary amendments to IFRSs. IAS 28 – Investments in Associates and Joint Ventures and IFRS 1 – First-time Adoption of International Financial Reporting Standards are effective from annual period beginning on or after 1 January 2018.

Annual Improvements to IFRSs 2015-2017 cycle was issued in December 2017. Those amendments affect IFRS 3 – Business Combinations, IFRS 11- Joint Arrangements, IAS 12 – Income Taxes and IAS 23 – Borrowing Costs. The amendments are effective from annual period beginning on or after 1 January 2019.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

III. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 9 – Financial Instruments

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

Classification and Measurement

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

Business model

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

III. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 9 – Financial Instruments (Continued)

Classification and Measurement (Continued)

Characteristics of the contractual cash flows

The assessment of the characteristics of the contractual cash flows aims to identify whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Impairment

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

Measurement of ECL

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

III. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 9 – Financial Instruments (Continued)

Impairment (Continued)

Criteria for judging significant increases in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

Parameters of the ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of the ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment.
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure, which is the percentage of loss of risk exposure at the time of default.
- EAD is the amount that the Group should be reimbursed at the time of the default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

III. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 9 – Financial Instruments (Continued)

Impairment (Continued)

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL of various business types. In addition to providing a baseline economic scenario, the Group considered multiple scenarios and calculated the weighted credit loss.

Hedge accounting

The new hedge accounting model aims to provide a better link among an entity's risk management strategy, the rationale for hedging and the impact of hedging on the financial statements. Greater flexibility has been introduced to the types of transactions eligible for hedge accounting. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. The Group chose to adopt the new hedge accounting requirements in IFRS 9 from 1 January 2018.

Impacts

Considering the impact of these standards, and interpretations on the consolidated financial statements, the Group will record an adjustment to 1 January 2018 shareholders' equity at the adoption date, but will not restate comparative periods. Due to the requirement of IFRS 9, the adoption of classification and measurement of financial instrument and the ECL model is expected to increase shareholders' equity by approximately 1% after tax as at 1 January 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

III. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

IFRS 15 will not impact the majority of the Group's revenue. According to the current assessment, IFRS 15 has no significant impact on the overall financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES

1. Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Hong Kong Companies Ordinance.

2. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and the entities (including structured entities) directly or indirectly controlled by the Company. Control is achieved if and only if the Company has all the following: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting and potential voting rights; and
- any additional facts and circumstances that indicate that the Company has, or does not have the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Basis of consolidation (Continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests of consolidated subsidiaries are presented separately from the Group's equity therein.

The carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income and expenses of a subsidiary is attributed to the equity holders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The carrying amount of the non-controlling interests is adjusted at the non-controlling interests' proportionate share of the subsidiary's identifiable net assets. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Basis of consolidation (Continued)

When the Group loses control of a subsidiary, it (i) derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognizes the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognizes the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognized as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Business combinations (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

4. Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognized in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill arising on a business combination is measured at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statements of financial position. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Cash and cash equivalents

Cash and cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

6. Foreign currency transactions

The functional currency of the Company and its subsidiaries operating in the Mainland China is RMB. The Company's subsidiaries operating outside the Mainland China choose their functional currency on the basis of the primary economic environment in which they operate.

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise, except for (I) exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognized in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation; (II) exchange differences arising from the changes of the fair value of monetary assets classified as available-for-sale financial assets (other than the changes relating to the amortized cost of the monetary assets) which are recognized in other comprehensive income and accumulated in equity.

Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Foreign currency transactions (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at a rate that approximates the exchange rates at the dates of the transactions. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

7. Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

7.1 Determination of fair value

Fair value is determined in the manner described in note VI.76.

7.2 Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or expense over the period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount on initial recognition. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Financial instruments (Continued)

7.3 *Classification, recognition and measurement of financial assets*

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. Investment securities comprise held-to-maturity investments, available-for-sale financial assets and financial assets classified as receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets at fair value through profit or loss ("FVTPL")

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

A financial asset is classified as held-for-trading if:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Financial instruments (Continued)

7.3 Classification, recognition and measurement of financial assets (Continued)

Financial assets at fair value through profit or loss (“FVTPL”) (Continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from remeasurement recognized directly in profit or loss in the period in which they arise. Any interest income arising from financial assets designated as at fair value through profit or loss is also included in fair value changes of such assets.

Held-to-maturity investments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Financial instruments (Continued)

7.3 Classification, recognition and measurement of financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables by the Group include cash and balances with central banks, deposits with banks and financial institutions, deposits with exchanges and others, placements with banks and financial institutions, financial assets classified as receivables, loans and advances to customers and accounts receivable.

Loans and receivables are subsequently measured at amortized cost using the effective interest method. Gain or loss arising from derecognition or impairment is recognized in profit or loss.

Debt securities with fixed or determinable payments but have no quoted price in an active market are classified as receivables.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or are not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group designated certificates of deposits as available-for-sale financial assets on initial recognition of those items.

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

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period.

When a debt is swapped into equity interest of an entity during a debt restructuring, the difference between the carrying amount of the debt receivable and the fair value of the equity interest being swapped is recognized in profit or loss for the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Financial instruments (Continued)

7.4 *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence that a financial asset is impaired includes the following observable events:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Financial instruments (Continued)

7.4 Impairment of financial assets (Continued)

- (7) significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;
- (8) a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and
- (9) other objective evidence indicating there is an impairment of a financial asset.

Impairment of financial assets measured at amortized cost

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

When the Group calculates the present value of the estimated future cash flows of a collateralized financial asset whether the collateral will be recovered, the foreclosure and obtaining and selling of collateral costs should be taken into account.

The carrying amount of a financial asset is reduced through the use of an allowance account. Changes in carrying amount of the allowance account are recognized in the profit or loss. When a financial asset is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Financial instruments (Continued)

7.4 Impairment of financial assets (Continued)

Impairment of available-for-sale financial assets

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

Impairment loss on equity investment at fair value is not reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Impairment of financial assets measured at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognized as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Financial instruments (Continued)

7.5 *Transfer of financial assets*

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

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

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognized and the part that is derecognized, based on the respective fair values of those parts. The difference between (i) the carrying amount allocated to the part derecognized; and (ii) the sum of the consideration received and receivable for the part derecognized and any cumulative gain or loss allocated to the part derecognized which has been previously recognized in other comprehensive income, is recognized in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Financial instruments (Continued)

7.6 *Classification, recognition and measurement of financial liabilities*

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

On initial recognition, the Group's financial liabilities are generally classified into financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at fair value through profit or loss

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

The criteria for a financial liability to be classified as held for trading or designated as at FVTPL are the same as those for a financial asset to be classified as held for trading or designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with gain or loss arising from derecognition or amortization recognized in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Financial instruments (Continued)

7.7 Derecognition of financial liabilities

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

7.8 Derivative financial instruments and hedge accounting

Derivatives financial instruments include interest rate derivatives, exchange rate derivatives, equity derivatives, commodity derivatives and others. Derivatives are initially recognized at fair value on the date the derivative contract is entered into and are subsequently re-measured at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and through the use of valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

An embedded derivative is separated from the hybrid instrument, where the hybrid instrument is not designated as a financial asset or financial liability at fair value through profit or loss, and treated as a standalone derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. If the Group is unable to measure the embedded derivative separately either at acquisition or at the end of each reporting period, it designates the entire hybrid instrument as a financial asset or financial liability at fair value through profit or loss.

Derivatives are categorized as held for trading and changes in their fair value are recognized immediately in the statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Financial instruments (Continued)

7.8 *Derivative financial instruments and hedge accounting (Continued)*

The Group documents at inception the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items. These criteria should be met before a hedge can be qualified to be accounted for under hedge accounting.

(a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognized in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognized immediately in the statement of profit or loss. Amounts accumulated in equity are reclassified to the statement of profit or loss in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any accumulated gain or loss existing in equity at that time remains in equity and is recognized in the statement of profit or loss when the forecast transaction is ultimately recognized in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the accumulated gain or loss that was reported in equity is immediately reclassified to the statement of profit or loss.

(b) Net investment hedge

A gain or loss on the effective portion of the hedging instrument is recognized in other comprehensive income and accumulated in equity; a gain or loss on the ineffective portion is recognized immediately in the statement of profit or loss. Accumulated gains and losses previously recognized in other comprehensive income are reclassified to the statement of profit or loss upon disposal of the foreign operation as part of the gain or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Financial instruments (Continued)

7.9 Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when both of the following conditions are satisfied: (i) the Group has a legal right to set off the recognized amounts and the legal right is currently enforceable; and (ii) the Group intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously.

8. Inventories

Properties under development and properties held for sale

Properties under development and properties held for sale are stated at the lower of cost and net realizable value on an individual basis. Cost comprises the acquisition cost and other costs directly attributable to such properties as well as borrowing costs capitalized in accordance with the Group's accounting policy.

Others

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

9. Interests in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant require unanimous consent of the parties sharing control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Interests in associates and joint ventures (Continued)

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates or joint ventures used for equity accounting purpose are prepared using uniform accounting policies as those of the group for like transactions and events in similar circumstances. Under the equity method, investments in associates or joint ventures are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associates or joint ventures. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the investee is recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired. The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value-in-use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Interests in associates and joint ventures (Continued)

Upon disposal of an associate that results in the Group losing significant influence over that investee, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition of a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amount previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate. When a group entity transacts with its associate or joint venture, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

10. Investment properties

Investment properties are initially measured at cost, including any directly attributable expenditure.

Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognized so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction costs incurred for investment properties under construction are capitalized as part of the carrying amount of the investment properties under construction.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognized.

Investment properties are depreciated or amortized in accordance with the same policies of buildings and land use rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative purpose (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The useful lives, estimated residual value rates and annual depreciation rates of each class of property and equipment are as follows:

	Depreciation period	Residual value rates	Annual depreciation rates
Buildings	20-50 years	3%-10%	1.80%-4.85%
Machinery and equipment	2-15 years	0%-5%	6.33%-50.00%
Electronic equipment and furniture	2-15 years	0%-5%	6.33%-50.00%
Motor vehicles	2-15 years	0%-5%	6.33%-50.00%

Properties in the course of construction for supply of services or administrative purposes are carried at cost, less any recognized impairment loss and borrowing cost capitalized in accordance with the Group's accounting policy. Such properties are reclassified to the appropriate category of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

12. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset are capitalized when expenditures for such asset and borrowing costs are incurred and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. Capitalization of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Capitalization of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is suspended abnormally. Capitalization is suspended until the acquisition, construction or production of the asset is resumed. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. Where funds are borrowed under general-purpose borrowings, the Group determines the amount of interest to be capitalized on such borrowings by applying a capitalization rate to the weighted average of the excess of cumulative expenditures on the asset over the amounts of specific-purpose borrowings. The capitalization rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

During the capitalization period, exchange differences related to a specific-purpose borrowing denominated in foreign currency are all capitalized. Exchange differences in connection with general-purpose borrowings are recognized in profit or loss in the period in which they are incurred.

13. Intangible assets

Intangible assets include trading seat fee, computer software systems and others, trade names, core deposits intangible and credit card customer relationships, etc.

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost less net residual value and any accumulated impairment losses is amortized over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

13. Intangible assets (Continued)

For an intangible asset with a finite useful life, the Group reviews the useful life and amortization method at the end of the reporting period, and makes adjustments when necessary.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period when the asset is derecognized.

14. Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

14. Impairment losses on tangible and intangible assets other than goodwill (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

15. Resale and repurchase agreements

15.1 Financial assets held under resale agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognized in the consolidated statement of financial position. The cost (including interests) of purchasing such assets is presented under “financial assets held under resale agreements” in the consolidated statement of financial position. The difference between the purchasing price and reselling price is recognized as interest income during the term of the agreement using the effective interest method.

15.2 Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognized in the consolidated statement of financial position. The proceeds (including interests) from selling such assets are presented under “financial assets sold under repurchase agreements” in the consolidated statement of financial position. The difference between the selling price and repurchasing price is recognized as interest expense during the term of the agreement using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

16. Provisions

Provisions are recognized when the Group has a present obligation related to a contingency such as action at law, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

Where all or some of the expenditure required to settle a provision is expected to be reimbursed by a third party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received, and the amount of reimbursement recognized does not exceed the carrying amount of the provision.

17. Insurance contracts and significant insurance risk testing

Insurance contracts are those contracts under which the Group has accepted significant insurance risk from the policyholders by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Insurance contracts held by the Group are classified as direct insurance contracts and reinsurance contracts. The significance of insurance risk as determined by the Group is dependent on both the probability of an insurance event and the magnitude of its potential effect.

Some insurance contracts contain both an insurance component and a deposit component. The Group should unbundle the insurance component and the deposit component.

The unbundled insurance component is accounted for according to IFRS 4 and the unbundled deposit component is accounted for as investment contract liabilities according to relevant accounting policies. If the insurance component and the deposit component are not distinct and separately measurable, the whole contract is accounted for as an insurance contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

17. Insurance contracts and significant insurance risk testing (Continued)

For contracts issued by the Group which require testing the significance of insurance risk, it will be performed at the initial recognition of such contracts, and based on a group of contracts with similar nature. When performing the insurance risk significance test, the Group makes judgements in sequence as to whether the contract transfers insurance risk, whether the contract has commercial substance, and whether the transferred insurance risk is significant.

18. Insurance contracts liabilities

Insurance contract liabilities of the Group include long-term life insurance contract liabilities, unearned premium reserves and claim reserves.

When measuring the long-term life insurance contract liabilities, the Group classifies insurance contracts whose insurance risks are of a similar nature as a measurement unit and mainly considers the characteristics of policies, including product type, gender, age, and durations of policies, when determining the measurement unit, etc.

The Group's short-term insurance contracts, which include non-life and short-term accident and health insurance policies, are grouped into certain measurement units by business line.

Insurance contract liabilities are measured based on reasonable estimates of the amount of payments when the Group fulfills relevant obligations under the insurance contracts, which represents the difference between expected future cash outflows and inflows under such contracts, i.e. the expected future net cash outflows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

18. Insurance contracts liabilities (Continued)

- Expected future cash outflows represent cash outflows which are necessary for the Group to fulfill the obligations under the insurance contracts (including benefits attributable to the policyholders), and mainly include:
 - (i) Guaranteed benefits under the insurance contracts, including mortality benefits, disability benefits, morbidity benefits, survival benefits, maturity benefits and other benefits guaranteed by the insurance contracts;
 - (ii) Non-guaranteed benefits under the insurance contracts which are subject to certain level of discretion by the Group, including policyholder dividends; and
 - (iii) Reasonable expenses necessary for policy administration and claims handling, including policy maintenance expenses and claim expenses.
- Expected future cash inflows represent cash inflows arising from assuming liabilities under the insurance contracts, including premium income and other charges.

A reasonable estimate of expected future net cash flows is determined based on information available at the end of each reporting period.

Margins are considered and separately measured in determining insurance contract liabilities. Margins are released in the statement of profit or loss over the insurance coverage period using systematic and reasonable methods. Margins include risk margin and residual margin.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

18. Insurance contracts liabilities (Continued)

- Risk margin represents provision for the uncertainty associated with the future net cash flows.
- At inception of an insurance contract, any “Day 1” gain is not recognized in the statement of profit or loss, but included in the insurance contract liabilities as a residual margin. However, any “Day 1” loss should be recognized in the statement of profit or loss at inception when it occurs. Any residual margin is amortized over the life of the contracts. The subsequent measurement of residual margin is independent from reasonable estimate of future discounted cash flows and risk margin, and will not be adjusted for future changes in assumptions.

For long-term life insurance contracts, the Group amortizes the residual margin on the basis of the effective sum of insured amount or numbers of insurance contracts during the whole insurance coverage period. For short-term insurance contracts, the Group amortizes the residual margin on a time basis during the whole insurance coverage period and records it in profit or loss.

When measuring insurance contract liabilities, time value of money is considered. The related future cash flows are discounted when the impact of time value of money is significant. For short-term insurance contracts which duration is within one year, the cash flows are not discounted. The discount rates used in the measurement of time value of money are determined with reference to information available at the end of each reporting period.

The Group uses information available at the end of each reporting period to derive the following assumptions used for measuring the reserve of long-term life insurance contracts:

- For insurance contracts whose future insurance benefits will not be affected by investment income of the corresponding investment portfolio, the discount rates are determined based on the market interest rate which is in line with the period and risk of liability of cash outflows. For insurance contracts whose future insurance benefits will be affected by investment income of the corresponding investment portfolio, the discount rates are determined based on expected investment return rates of the portfolios backing the liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

18. Insurance contracts liabilities (Continued)

- The Group reasonably estimates the insurance incident occurrence rate, lapse and surrender rate, expenses assumption and policy dividend assumption based on actual experience and expected future development trends.

When measuring insurance contract liabilities, the expected period of future net cash outflows is the entire insurance period. For insurance policies with a guaranteed renewal option, the expected period is extended to the date when the option to renew policy ceases if the probability that the policyholders may execute the option is high and the Group does not have the right to re-price the premium.

Unearned premium reserves

Unearned premium reserves for short-term insurance contracts represent the larger of a) portion of the premiums written net of certain acquisition costs relating to the unexpired terms of coverage and b) estimated future net cash outflows.

At inception of the insurance contracts, unearned premium reserves are measured based on premiums received less relevant acquisition costs. Subsequent to the initial recognition, unearned premium reserves are released on a 1/365 basis according to the insurance coverage period.

The risk margin of the unearned premium reserves is determined by reference to the industry ratio and the Group's experience.

Claim reserves

Claim reserves are provided for insurance claims of short-term insurance contracts and include incurred and reported reserves, Incurred but not reported reserves ("IBNR") and claim expense reserves.

Incurred and reported reserves are measured at amounts not higher than the sum insured of the insurance contracts, using methods such as the case-by-case estimate method or average claim per case method, based on a reasonable estimate of ultimate claim amounts as well as margins.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

18. Insurance contracts liabilities (Continued)

Claim reserves (Continued)

IBNR are measured according to the nature and distribution of insurance risks, claims development, experience data, etc., using methods such as the chain ladder method, average claim per case method, expected loss ratio method or Bornhuetter-Ferguson method, based on a reasonable estimate of ultimate claim amounts as well as margins.

Claim expense reserves are measured based on the best estimates of the future payments for claim expenses.

The risk margin of the claim reserves is determined by reference to the industry ratio and the Group's experience.

Liability adequacy test

The Group assesses the adequacy of insurance contract liabilities using the current estimate of future cash flow with available information at the end of each reporting period. If the insurance contract liabilities re-calculated with the insurance actuarial methods exceed their carrying amounts on the date of the liability adequacy test, an additional provision is made for the respective insurance contract liabilities based on the difference. Otherwise, no adjustment is made for the respective insurance contract liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

18. Insurance contracts liabilities (Continued)

Investment contracts

Insurance policies that are not considered insurance contracts under IFRS 4 are classified as investment contracts. These policies do not contain significant insurance risk and are accounted for as follows:

- Premium receipts are recognized not as premium income, but rather as liabilities, presented as investment contract liabilities. For those non-life investment type policies without guaranteed benefits, the related contract liabilities are measured at fair value and the related transaction costs are recognized in the statement of profit or loss. For other investment contracts, the related liabilities are initially measured at fair value and subsequently measured at amortized cost. Commissions and other expenses incurred, net of receipts from initial charges that are meant to compensate such costs, are recognized as transaction costs in the initial amount of the liabilities.
- Charges including policy administration fees are recognized as other income during the period of service provided.

Universal life contracts

The individual universal life contracts of the Group contain significant insurance risks and are classified as insurance contracts. These policies also contain both insurance components and deposit components. The deposit components are unbundled from these hybrid insurance contracts. The rest of the contracts are accounted for as insurance contracts. Certain group universal life contracts of the Group that do not contain significant insurance risks are classified as investment contracts.

The group universal life contracts and the deposit component unbundled from the above individual universal life insurance contracts are accounted for as follows:

- Premium receipts are recognized not as premium income, but rather as liabilities, presented in investment contract liabilities. These liabilities are initially measured at fair value and subsequently measured at amortized cost. Commissions and other expenses incurred, net of receipts from initial charges that are meant to compensate such costs, are recognized as transaction costs in the initial amount of the liabilities.
- Fees from surrenders and other service charges are recognized in other income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

18. Insurance contracts liabilities (Continued)

Reinsurance

The Group cedes insurance risk in the normal course of business. Reinsurance agreements that transfer significant insurance risk are treated as reinsurance contracts; reinsurance agreements that do not transfer significant insurance risk are treated as financial assets. Reinsurance assets primarily represent balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured risks and in accordance with the terms of the reinsurance contracts.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the statement of profit or loss.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. The Group also assumes reinsurance risk in the normal course of business. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts payable to reinsurers are estimated in a manner consistent with that of the associated reinsurance contracts.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance unless a legal right and the intention of offset exist. Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

19. Assets and liabilities classified as held for sale

The Group classifies non-current assets or an asset group as held for sale if their carrying amounts are recovered principally through disposal rather than through continuing use. Assets and liabilities classified as held for sale are presented separately on the balance sheet. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

20. Preference shares

Preference shares issued by the Company contain no contractual obligation to deliver cash or another financial asset; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company; and preference shares issued are non-derivative instruments that will be settled in the Company's own equity instruments, but includes no contractual obligation for the Company to deliver a variable number of its own equity instruments. The Company classifies preference shares issued as an equity instrument. Fees, commissions and other transaction costs of preference shares issuance are deducted from equity. The dividends on preference shares are recognized as profit distribution at the time of declaration.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and when the revenue can be reliably measured. Specific recognition criteria for different nature of revenue are disclosed below:

21.1 Income from distressed assets

Income from distressed assets is mainly generated from distressed debt assets included in financial assets classified as receivables and financial assets at fair value through profit or loss, equity instruments relating to distressed asset business included in available-for-sale financial assets and assets in satisfaction of debts.

Income from distressed debt assets includes interest income arising on distressed debt assets classified as receivables, gains or losses from disposal of distressed debt assets designated as at fair value through profit or loss and unrealized fair value changes on such assets, both of which are accounted for as fair value changes on distressed debt assets. Any interest income arising from distressed debt assets designated as at fair value through profit or loss is also included in fair value changes of such assets. Income is also generated from the disposal of assets in satisfaction of debts. The accounting policy for interest income arising on distressed debt assets classified as receivable is detailed in note IV.21.5.

Income from equity instruments relating to distressed asset business classified as available-for-sale financial assets includes dividend income and gains or losses from disposal of these instruments and are presented under investment income. The accounting policy for dividend income is detailed in note IV.21.7.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21. Revenue recognition (Continued)

21.2 *Fee and commission income*

Income from investment contracts

Fees are charged for investment contracts issued by the Group for policy administration, investment management, surrenders or other contract services. The fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's balance. The fees are recognized as revenue in the period in which they are due unless they relate to services to be provided in future periods which would be deferred and recognized as the service is provided. Initiation and other front-end fees are charged for certain investment contracts recorded at amortized cost and are mainly recognized through an adjustment to the effective yield.

Income from investment contracts is included in commission and fee income.

Other fee and commission income

The income from securities trading brokerage business is recognized as fee and commission income on a trade date basis.

The income from securities underwriting services is recognized according to the underwriting agreements as fee and commission income when the securities are allotted.

Funds and asset management fee, future business fee and consultancy and financial advisory fee are recognized on accrual basis when services are provided.

Fee from leasing business is recognized on an accrual basis when services are provided.

Fee and commission income from trustee services is recognized on an accrual basis and calculated in accordance with the terms of the trust contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21. Revenue recognition (Continued)

21.3 Premium income

Premium income and reinsurance premium income are recognized when the insurance contracts are issued, related insurance risk is undertaken by the Group, it is probable that related economic benefits will flow to the Group and related income can be reliably measured.

Premiums from long-term life insurance contracts are recognized as revenue when due from the policyholders. Premiums from direct short-term insurance contracts are recognized as revenue based on the amount of total premium stated in the contracts.

Reinsurance premiums are recognized as revenue in accordance with the terms stated in the reinsurance contracts.

21.4 Revenue from sale of goods

Revenue from sale of goods is recognized when (1) the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; (2) the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (3) the amount of revenue can be measured reliably; (4) it is probable that the associated economic benefits will flow to the Group; and (5) the associated costs incurred or to be incurred can be measured reliably.

Specifically, revenue from sale of properties in the ordinary course of business is recognized when the respective properties have been completed and delivered to the buyers. Deposits and installments received from purchasers prior to meeting the above criteria for revenue recognition are included in the consolidated statement of financial position under other liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of RMB, unless otherwise stated)

IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21. Revenue recognition (Continued)

21.5 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for interest income from distressed debt assets and investment securities, are recognized within “interest income” and “interest expense” in profit or loss using the effective interest method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

21.6 Investment income

Investment income includes interest income, dividend income and disposal gain/loss from the debt assets and equity instruments that are classified as available-for-sale financial assets, held-to-maturity investments and debt instruments classified as receivables.

21.7 Dividend income

Dividend income from investments is recognized when the shareholders’ rights to receive the payment has been established and is recognized provided that the amount can be measured reliably and it is probable that the associated economic benefits will flow to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

21. Revenue recognition (Continued)

21.8 Other income

Property rental income

The property rental income is recognized when the amount can be measured reliably and it is probable that the associated economic benefits will flow to the Group, and is recognized on accrued basis.

Property management fee

The property management fee is recognized when the services are provided and it is probable that the associated economic benefits will flow to the Group and relevant income and cost can be measured reliably.

22. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

22.1 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22. Taxation (Continued)

22.2 *Deferred tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with interests in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on the tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets or liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

22. Taxation (Continued)

22.2 Deferred tax (Continued)

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

23. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

23.1 The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

23. Leasing (Continued)

23.2 The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

23.3 Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, leasehold interests in land (i.e. land use rights) are accounted for as operating leases and amortized over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

24. Fiduciary activities

The Group's fiduciary activities mainly include trust and asset custody services.

The trust service of the Group refers to the business that the Group acts as trustee to undertake investment activity within the agreed period and scope on behalf of the third-party lenders who provide the fund.

The Group is responsible for the arrangement and collection of the entrusted loans and receives a commission for the services rendered. As the Group does not assume the risks and rewards of the entrusted loans and the funding for the corresponding entrusted funds, they are not recognized as assets and liabilities of the Group.

25. Employee benefits

In the reporting period in which an employee has rendered services, the Group recognizes the employee benefits payable for those services as a liability.

Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the PRC government, including social insurance, housing funds and other social welfare contributions. The Group contributes on a monthly basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognized in profit or loss for the period in which they are incurred. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Annuity Scheme

The employees of the Group participate in Annuity Scheme set up by the Company (the "Annuity Scheme"). The Group made annuity contributions with reference to employees' salaries of last year, and the contributions are expensed in profit or loss when incurred. The Group has no further obligation even if the Annuity Scheme does not have sufficient assets for payment of supplementary retirement benefits to employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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IV. SIGNIFICANT ACCOUNTING POLICIES (Continued)

25. Employee benefits (Continued)

Defined benefit plans

The Group's subsidiary Nanyang Commercial Bank, Limited (the "NCB") operates a defined benefit plan for all its retired employees.

Under the plan, the employees are entitled to retirement benefits which included fully redeemed medical care, housing allowance and other retirement benefits.

The liability related to the above post-retirement benefit obligations existing at the end of each reporting period is calculated by independent actuaries using the projected unit credit method and is recorded as a liability. The present value of the liability is determined through discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The actuarial gains or losses of post-retirement benefit obligations are recognized in "other comprehensive income" immediately when they occur. Except for the actuarial changes, other changes are recognized in profit or loss for the period immediately when they occur.

26. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

V. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION

The following are the critical judgements and key estimation uncertainties that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements and/or in the next financial year.

1. Classification of financial assets

The Group's management needs to make critical judgement in classifying financial assets based on the purpose and nature on the initial recognition date. Due to the differences of the subsequent measurement of financial assets, the classification will affect the financial position and operating results. If the Group sold more than an insignificant amount of held-to-maturity investments before maturity, it is required to reclassify the entire portfolio of held-to-maturity investments as available-for-sale financial assets.

2. Fair value of financial instruments

The Group uses valuation techniques for financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis, option pricing models or other valuation methods as appropriate. In practical applications, only observable data are used in the models. However, areas such as credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of the financial instruments.

3. Impairment of available-for-sale equity financial instruments

The determination of whether an available-for-sale equity financial instrument is impaired requires significant judgement. In making this judgement, the Group evaluates the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, credit ratings, delinquency rates and counterparty risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

V. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION (Continued)

4. Impairment of held-to-maturity investments

The determination of whether a held-to-maturity financial asset is impaired requires significant judgement. Objective evidence that a financial asset or group of assets is impaired includes a breach of contract, such as a default or delinquency in interest or principal payments or the disappearance of an active market for that financial asset because of the significant financial difficulty of the issuer. In making such judgement, the impact of objective evidence for impairment on expected future cash flows of the investment is taken into account.

5. Impairment of loans and advances to customers and financial assets classified as receivables

The Group reviews its loans and advances to customers and financial assets classified as receivables to assess impairment on a periodic basis. In determining whether there are objective evidence of impairment, the Group makes judgements as to whether the estimated future cash flows from loans and advances to customers and financial assets classified as receivables would likely be lower than those stated on the repayment schedule as stipulated in the loan agreements. The Group first makes the assessment on an individual basis to determine allowance for impairment losses. When the decrease may not have been identified individually or the individual loans and advances to customers or financial assets classified as receivables is not significant, management uses estimates based on historical loss experience and industrial experience data on a collective basis to assess the impairment loss while estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

6. Transfer of financial assets

Whether the derecognition should be applied to part of a financial asset or the financial asset in its entirety, as well as whether, and to what extent, derecognition is appropriate requires significant judgement. In making this judgement, the Group evaluates whether it has transferred the right to collect the contractual cash flows, retained substantially all the risks and rewards of the transferred assets, or retained control of the transferred assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

V. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION (Continued)

7. Measurement method of insurance contract reserve

At the end of each reporting period, the Group needs to make reasonable estimations on the future cash layout for carrying out insurance contract obligations, such estimations are based on current available information obtainable at the end of each reporting period, and determined by taking into account all different circumstances and relevant probability calculation. The Group makes estimations on the assumptions in the measurement of the insurance contract reserves, which are determined based on the current information available at the end of each reporting period.

8. Control on structured entities

The Group's management needs to assess whether the Group has the power over a structured entity and is exposed to significant variable return of the structured entity. If such power and exposure exist, the Group has to consolidate such structured entity. The judgments the Group used in determining whether or not it has control over the structured entities are detailed in note VI.39.

The Group reassess whether it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the three elements of control as listed in note IV.2.

9. Judgment on joint control

The joint control over the investees is determined by the Group's assessment of the existence of sharing of control. The assessment involves judgment on whether decisions about the relevant activities require the unanimous consent of the parties sharing control.

10. Judgment on significant influence

The significant influence over the investees is determined by the Group's assessment of its power to participate in the investees' financial and operating policy decisions. The assessment involves significant judgment based on factors such as the investees' policy-making process, composition of board of directors or other governing body, change in ownership and existence of contractual arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

V. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION (Continued)

11. Taxes

There are certain transactions and activities for which the ultimate tax determination is subject to the final approval of annual tax return the Group filed with relevant tax authorities. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

VI. EXPLANATORY NOTES

1. Income from distressed debt assets classified as receivables

The amounts mainly represent interest income arising from distressed debt assets classified as receivables, which include loans acquired from financial institutions and accounts receivable acquired from non-financial institutions (see note VI.30).

2. Fair value changes on distressed debt assets

The amounts represent fair value changes on distressed debt assets designated by the Group as at fair value through profit or loss during the year (see note VI.27).

The fair value changes comprise both realized gains or losses from disposal of distressed debt assets designated as at fair value through profit or loss and unrealized fair value changes on such assets. Any interest income arising from such assets is included in fair value changes.

3. Fair value changes on other financial instruments

	Year ended December 31	
	2017	2016
Held-for-trading financial assets	1,519,282	543,248
Financial assets designated as at fair value through profit or loss	1,062,941	2,113,023
Total	<u>2,582,223</u>	<u>2,656,271</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**4. Investment income**

	Year ended December 31	
	2017	2016
Net realized gain from disposal of		
– available-for-sale financial assets ⁽¹⁾	14,401,308	7,980,842
Interest income from investment securities		
– available-for-sale financial assets	3,691,300	1,919,215
– debt instruments classified as receivables	1,294,224	1,208,971
– held-to-maturity financial assets	601,968	428,011
Dividend income from		
– available-for-sale financial assets	8,879,917	6,454,298
Others	597,030	–
Total	29,465,747	17,991,337

- (1) During this year, four debt-to-equity-swap investees held by the Company, which were classified as available-for-sale financial assets, had been derecognized and reinvested as interests in associates and joint ventures due to that the Company became capable of exercising significant influence or having joint control over the investees. On transaction date, initial cost of RMB20,961.41 million of interests in associates and joint ventures and investment income of RMB12,064.98 million was recognized accordingly. During last year, two debt-to-equity-swap investees held by the Company, which were classified as available-for-sale financial assets, had been derecognized and reinvested as interests in associates due to that the Company became capable of exercising significant influence over the investees. On transaction date, initial cost of RMB4,524.09 million of interests in associates and joint ventures and investment income of RMB3,301.17 million was recognized accordingly.

5. Net insurance premiums earned

	Year ended December 31	
	2017	2016
Gross written premiums	19,311,778	16,891,389
Less: Premiums ceded to reinsurers	51,051	139,436
Change of unearned premium reserves	(6,201)	116,200
Total	19,266,928	16,635,753

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

5. Net insurance premiums earned (Continued)

Details of the Group's gross written premiums analyzed by type of insurance are set out below:

	Year ended December 31	
	2017	2016
Life insurance	18,474,609	13,632,654
Property and casualty insurance	837,169	3,258,735
Total	<u>19,311,778</u>	<u>16,891,389</u>

6. Interest income

The following interest income arises from financial assets other than investment securities and distressed debt assets:

	Year ended December 31	
	2017	2016
Loans and advances to customers		
Corporate and personal loans and advances	12,180,325	8,584,398
Finance lease receivables	2,381,954	2,431,763
Loans to margin clients	554,105	555,559
Financial assets held under resale agreements	2,596,101	994,272
Deposits with banks and financial institutions	1,981,507	1,456,489
Placements with banks and financial institutions	587,440	179,358
Balance with central banks	172,112	92,947
Accounts receivable	9,658	81,424
Others	177,588	130,287
Total	<u>20,640,790</u>	<u>14,506,497</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**7. Revenue from sales of inventories and purchases and changes in inventories**

	Year ended December 31	
	2017	2016
Revenue from sales of inventories	14,425,517	10,954,587
Purchases and changes in inventories	(10,355,808)	(8,455,785)
Including:		
Revenue from sales of properties held for sale	14,358,246	10,918,121
Purchases and changes in properties held for sale	(10,310,858)	(8,428,346)
Gross profit from sales of properties	4,047,388	2,489,775
Revenue from other trading operations	67,271	36,466
Purchases and changes in inventories of other trading operations	(44,950)	(27,439)
Gross profit from other trading operations	22,321	9,027

8. Commission and fee income

	Year ended December 31	
	2017	2016
Securities and futures brokerage	1,094,356	1,537,086
Fund and asset management business	703,765	436,198
Consultancy and financial advisory	331,888	657,127
Trustee services	507,645	320,267
Banking business	999,161	570,793
Securities underwriting	86,284	82,858
Agency business	377,052	95,723
Others	118,773	148,019
Total	4,218,924	3,848,071

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**9. Net gains on disposal of subsidiaries, associates and joint ventures**

	Year ended December 31	
	2017	2016
Net gains on disposal of subsidiaries	3,647,591	897,233
Net gains on disposal of associates and joint ventures	11,569	99,739
Total	3,659,160	996,972

10. Other income and other net gains or losses

	Year ended December 31	
	2017	2016
Revenue from hotel operation	468,267	483,649
Rental income	352,776	406,993
Revenue from property management business	262,856	231,386
Net gains on disposal of investment properties	–	20,547
Government grant and compensation	38,348	41,607
Net gains on disposal of other assets	107,958	63,301
Net gains/(losses) on exchange differences	(1,843,890)	1,140,545
Others	349,642	424,238
Total	(264,043)	2,812,266

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

11. Interest expense

	Year ended December 31	
	2017	2016
Accounts payable to brokerage clients	(48,378)	(66,144)
Financial assets sold under repurchase agreements	(273,434)	(363,391)
Borrowings		
– wholly repayable within five years	(22,186,808)	(14,411,080)
– not wholly repayable within five years	(1,520,502)	(1,097,072)
Amount due to the MOF	(14,215)	–
Bonds issued	(7,626,343)	(5,512,089)
Due to customers	(2,579,193)	(1,327,204)
Placements from banks and financial institutions	(314,662)	(176,919)
Others	(1,347,543)	(269,944)
Total	<u>(35,911,078)</u>	<u>(23,223,843)</u>

12. Insurance costs

	Year ended December 31	
	2017	2016
Reserves for insurance contracts	(8,477,748)	(5,025,784)
Interest credited and policyholder dividends	(1,229,061)	(2,063,851)
Refund of reinsurance premiums	9,233	(24,146)
Other insurance expenses	(11,216,083)	(10,435,267)
Total	<u>(20,913,659)</u>	<u>(17,549,048)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**13. Employee benefits**

	Year ended December 31	
	2017	2016
Wages or salaries, bonuses, allowances and subsidies	(5,933,818)	(4,816,840)
Social insurance	(260,259)	(207,937)
Defined contribution plans	(399,442)	(381,128)
Defined benefit plans	(3,901)	(4,449)
Housing funds	(234,306)	(275,030)
Labor union fees and staff education expenses	(192,289)	(143,341)
Others	(387,323)	(280,926)
Total	<u>(7,411,338)</u>	<u>(6,109,651)</u>

14. Commission and fee expense

	Year ended December 31	
	2017	2016
Insurance sales	(1,392,833)	(1,502,079)
Securities and futures brokerage	(298,713)	(303,050)
Custody fee	(216,020)	(108,252)
Others	(497,295)	(208,981)
Total	<u>(2,404,861)</u>	<u>(2,122,362)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

15. Impairment losses on assets

	Year ended December 31	
	2017	2016
Allowances of impairment losses on assets		
– Available-for-sale financial assets	(5,229,521)	(2,554,671)
– Distressed debt assets classified as receivables	(3,133,159)	(1,209,642)
– Loans and advances to customers	(1,874,810)	(440,274)
– Other assets	(573,551)	(98,604)
– Properties held for sale	(337,564)	(150,077)
– Dividends receivable	(209,940)	(87,728)
– Accounts receivable	(31,094)	(1,812)
– Other financial assets classified as receivables	(15,041)	(270,889)
	<u>(11,404,680)</u>	<u>(4,813,697)</u>
Total	<u>(11,404,680)</u>	<u>(4,813,697)</u>

16. Profit before tax

	Year ended December 31	
	2017	2016
Profit before tax for the year has been arrived at after charging:		
Operating lease expenses	(307,964)	(466,547)
Depreciation of property and equipment	(438,796)	(401,417)
Depreciation of investment properties	(109,818)	(93,525)
Amortization	(305,358)	(245,483)
	<u>(305,358)</u>	<u>(245,483)</u>

Principal auditors' remuneration for the year ended December 31, 2017 was RMB35.51 million (2016: RMB32.03 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

17. Income tax expense

	Year ended December 31	
	2017	2016
Current income tax:		
– PRC Enterprise Income Tax	(5,451,465)	(5,482,991)
– PRC Land Appreciation Tax (“LAT”)	(719,735)	(464,941)
– Hong Kong Profits Tax	(402,538)	(226,867)
Overprovision/(Underprovision) in prior years	<u>93,652</u>	<u>(32,805)</u>
Subtotal	<u>(6,480,086)</u>	<u>(6,207,604)</u>
Deferred income tax (Note VI.45)	<u>(892,904)</u>	<u>424,113</u>
Total	<u><u>(7,372,990)</u></u>	<u><u>(5,783,491)</u></u>

The statutory income tax rate applicable to PRC enterprise is 25% for the year (2016: 25%). A subsidiary of the Company set up in the Western Region (as defined in note VI.75.1) of the PRC is taxed at 15% (2016: 15%) subject to an annual special approval by the tax bureau.

Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profit for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

17. Income tax expense (Continued)

Reconciliation of profit before tax to income tax expense is as follows:

	Year ended December 31	
	2017	2016
Profit before tax	26,130,816	21,765,502
Income tax calculated at the tax rate of 25%	(6,532,704)	(5,441,376)
Tax effect of expenses not deductible for tax purpose ⁽¹⁾	(151,797)	(103,213)
Tax effect of income not taxable for tax purpose ⁽²⁾	1,000,715	1,134,224
Tax effect of share of results of associates and joint ventures	302,125	(202,046)
Effect of tax losses and deductible temporary differences not recognized	(1,392,889)	(956,270)
Effect of utilization of tax losses not previously recognized	44,582	83,230
LAT	(719,735)	(464,941)
Tax effect of LAT	179,934	116,236
Overprovision/(Underprovision) in prior years	93,652	(32,805)
Effect of different tax rates of subsidiaries	(196,873)	83,470
Income tax expense	<u>(7,372,990)</u>	<u>(5,783,491)</u>

(1) Expenses not deductible for tax purpose mainly include employee benefits and entertainment expenses in excess of the tax deduction limits according to the PRC tax regulations.

(2) Income not taxable for tax purpose mainly includes interest income on treasury bonds and dividend income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**18. Earnings per share**

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

	Year ended December 31	
	2017	2016
Earnings:		
Profit attributable to equity holders of the Company	18,122,390	15,512,155
Less: Dividends on preference shares declared and distributed	1,048,903	—
Profit attributable to ordinary shareholders of the Company	<u>17,073,487</u>	<u>15,512,155</u>
Number of shares:		
Weighted average number of shares in issue for the purpose of basic earnings per share (in thousand)	<u>38,164,535</u>	<u>36,272,328</u>
Weighted average number of shares in issue for the purpose of diluted earnings per share (in thousand)	<u>38,164,535</u>	<u>36,272,328</u>
Basic earnings per share (RMB Yuan)	<u><u>0.45</u></u>	<u><u>0.43</u></u>
Diluted earnings per share (RMB Yuan)	<u><u>0.45</u></u>	<u><u>0.43</u></u>

19. Dividends

	Year ended December 31	
	2017	2016
Final dividend for 2016	4,656,073	—
Final dividend for 2015	<u>—</u>	<u>4,209,402</u>
Dividends recognized as distribution during the period	<u><u>4,656,073</u></u>	<u><u>4,209,402</u></u>

The resolution on the profit distribution plan for 2016 was duly approved by the shareholders at the Annual General Meeting held on June 30, 2017. In accordance with the plan, the dividend of RMB4,656.07 million was distributed during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

20. Emoluments of directors and supervisors

	Year ended December 31, 2017			
			All kinds of social insurance housing funds and annuity schemes	Total (before tax)
	Fees	Paid remuneration		
Executive directors				
HOU Jianhang	–	410	131	541
CHEN Xiaozhou	–	410	129	539
Non-executive directors				
LI Honghui ⁽¹⁾	–	–	–	–
SONG Lizhong ⁽¹⁾	–	–	–	–
XIAO Yuping ⁽¹⁾	–	–	–	–
YUAN Hong ⁽¹⁾	–	–	–	–
ZHANG Guoqing ⁽¹⁾⁽²⁾	–	–	–	–
LIU Chong ⁽¹⁾⁽³⁾	–	–	–	–
Independent non-executive directors				
CHANG Tso Tung Stephen	250	–	–	250
Xu Dingbo	250	–	–	250
ZHU Wuxiang	250	–	–	250
SUN Baowen	250	–	–	250
Supervisors				
GONG Jiande	–	410	130	540
LIU Yanfen	200	–	–	200
LI Chun	200	–	–	200
ZHANG Zheng	200	–	–	200
GONG Hongbing ⁽⁴⁾	20	–	–	20
LIN Dongyuan ⁽⁴⁾	20	–	–	20
JIA Xiuhua ⁽⁴⁾	20	–	–	20
Total	<u>1,660</u>	<u>1,230</u>	<u>390</u>	<u>3,280</u>

(1) These non-executive directors did not receive any fees from the Company.

(2) Zhang Guoqing was elected as the non-executive director in April 2017.

(3) Liu Chong was elected as the non-executive director in August 2017.

(4) The amounts only included fees for their services as employee representative supervisors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

20. Emoluments of directors and supervisors

	Year ended December 31, 2016			
			All kinds of social insurance housing funds and annuity schemes	Total (before tax)
	Fees	Paid remuneration		
Executive directors				
HOU Jianhang	–	646	171	817
ZANG Jingfan ⁽¹⁾	–	485	138	623
CHEN Xiaozhou ⁽²⁾	–	609	167	776
Non-executive directors				
XIAO Yuping ⁽³⁾	–	–	–	–
LI Honghui ⁽³⁾	–	–	–	–
SONG Lizhong ⁽³⁾	–	–	–	–
YUAN Hong ⁽³⁾	–	–	–	–
LU Shengliang ⁽³⁾⁽⁴⁾	–	–	–	–
Independent non-executive directors				
LI Xikui ⁽⁵⁾	208	–	–	208
QIU Dong ⁽⁵⁾	208	–	–	208
ZHU Wuxiang ⁽⁶⁾	40	–	–	40
SUN Baowen ⁽⁶⁾	40	–	–	40
CHANG Tso Tung Stephen	250	–	–	250
Xu Dingbo	250	–	–	250
Supervisors				
GONG Jiande	–	646	165	811
WEI Jianhui ⁽⁷⁾⁽⁸⁾	10	–	–	10
GONG Hongbing ⁽⁷⁾	20	–	–	20
LIU Yanfen	200	–	–	200
LI Chun	200	–	–	200
ZHANG Zheng ⁽⁹⁾	100	–	–	100
LIN Dongyuan ⁽⁷⁾⁽¹⁰⁾	10	–	–	10
JIA Xiuhua ⁽⁷⁾⁽¹⁰⁾	10	–	–	10
Total	1,546	2,386	641	4,573

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

20. Emoluments of directors and supervisors (Continued)

- (1) Zang Jingfan ceased to be the executive director and the Chief Executive from September 2016, and his emoluments disclosed above include those for services rendered by him as the Chief Executive during the year.
- (2) Chen Xiaozhou was elected as the executive director and the Chief Executive in November 2016, and his emoluments disclosed above include those for services rendered by him as the Chief Executive during the year.
- (3) These non-executive directors did not receive any fees from the Company.
- (4) Lu Shengliang ceased to be the non-executive director from November 2016.
- (5) Li Xikui and Qiu Dong ceased to be the independent non-executive directors from October 2016.
- (6) Zhu Wuxiang and Sun Baowen were elected as the independent non-executive directors in October 2016.
- (7) The amounts only included fees for their services as employee representative supervisors.
- (8) Wei Jianhui ceased to be the employee representative supervisor from June 2016.
- (9) Zhang Zheng was elected as the external supervisor in June 2016.
- (10) Lin Dongyuan and Jia Xiuhua were elected as the employee representative supervisors in June 2016.

The total compensation packages for the above executive directors, supervisors and the Chief Executive for the year ended December 31, 2017 have not yet been finalized in accordance with regulations of the relevant authorities in the PRC. The final compensation will be disclosed in a separate announcement when determined.

During the year, no emolument was paid by the Group to any of the directors, supervisors, key management personnel or the five highest paid individuals as set out in note VI.21 below as an inducement to join or upon joining the Group or as a compensation for loss of office. None of them waived any emoluments during the year. Bonus was determined based on the performance of individuals by the Group on a discretionary basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

21. Key management personnel and five highest paid individuals

(1) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and executive officers. The aggregate compensation paid/payable to key management personnel for employment services, excluding the directors and supervisors whose emolument details have been reflected in note VI.20, is as follows:

	Year ended December 31	
	2017	2016
Emoluments of key management personnel		
Paid emoluments	5,194	8,674
All kinds of social insurance, housing funds and annuity schemes	1,563	2,244
Total (before tax)	<u>6,757</u>	<u>10,918</u>

The total compensation packages for the above key management personnel for the year ended December 31, 2017 have not yet been finalized in accordance with regulations of the relevant authorities in the PRC. The final compensation will be disclosed in a separate announcement when determined.

The number of key management personnel with emoluments within the following bands is as follows:

	Year ended December 31	
	2017	2016
RMB100,001 to RMB500,000	2	7
RMB500,001 to RMB1,000,000	3	—
RMB1,000,001 to RMB1,500,000	4	1
RMB1,500,001 to RMB2,000,000	—	3
Total	<u>9</u>	<u>11</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

21. Key management personnel and five highest paid individuals (Continued)

(2) Five highest paid individuals

The emoluments of the five highest paid individuals whose emoluments were the highest in the Group for the year ended December 31, 2017 were as follows:

	Year ended December 31	
	2017	2016
Remuneration	17,326	13,454
All kinds of social insurance, housing funds and annuity schemes	1,235	1,560
Total (before tax)	18,561	15,014

Among the five highest paid individuals in the Group, none of them was a director. The number of these five individuals with emoluments within the following bands is as follows:

	Year ended December 31	
	2017	2016
RMB2,000,001 to RMB2,500,000	–	2
RMB2,500,001 to RMB3,000,000	–	2
RMB3,000,001 to RMB3,500,000	3	1
RMB3,500,001 to RMB4,000,000	1	–
RMB4,000,001 to RMB4,500,000	–	–
RMB4,500,001 to RMB5,000,000	1	–
Total	5	5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

22. Statement of financial position

		As at December 31	
	Notes VI	2017	2016
Assets			
Cash and balances with central banks	23	2,972	2,889
Deposits with banks and financial institutions	24	11,568,824	17,325,021
Placements with banks and financial institutions	26	–	3,000,000
Financial assets at fair value through profit or loss	27	157,271,136	95,135,859
Financial assets held under resale agreements	28	33,869,540	32,916,015
Available-for-sale financial assets	29	118,373,224	88,993,131
Financial assets classified as receivables	30	216,046,632	187,003,286
Accounts receivable	32	2,073,315	2,077,047
Amounts due from subsidiaries	33	34,068,270	30,533,368
Investment properties	36	319,414	335,549
Interests in subsidiaries	37	46,934,396	43,677,112
Interests in consolidated structured entities	39	34,056,166	36,433,708
Interests in associates and joint ventures	40	43,814,029	12,253,695
Property and equipment	42	1,212,926	1,260,607
Other intangible assets	44	15,557	13,888
Deferred tax assets	45	1,499,498	2,752,404
Assets classified as held for sale	59	–	1,878,126
Other assets	46	11,070,131	9,549,848
Total assets		<u>712,196,030</u>	<u>565,141,553</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**22. Statement of financial position (Continued)**

		As at December 31	
	<i>Notes VI</i>	2017	2016
Liabilities			
Borrowings from central bank	47	986,058	986,058
Financial liabilities at fair value through profit or loss	49	3,296,750	3,244,454
Placement from banks	51	–	1,900,000
Borrowings	52	468,799,900	349,563,000
Accounts payable	55	198,820	1,701
Tax payable	57	660,863	388,879
Bonds issued	60	92,309,594	72,269,207
Other liabilities	61	15,374,872	14,329,466
Total liabilities		581,626,857	442,682,765
Equity			
Share capital	62	38,164,535	38,164,535
Other equity instruments	63	21,281,215	21,281,215
Capital reserve	64	20,025,375	20,025,375
Other comprehensive income	65	892,805	911,454
Surplus reserve	66	6,931,648	5,548,247
General reserve	67	7,695,921	5,938,610
Retained earnings	68	35,577,674	30,589,352
Total equity		130,569,173	122,458,788
Total equity and liabilities		712,196,030	565,141,553

The financial statements are authorized by the board of Directors to be signed by the following directors.



CHAIRMAN



PRESIDENT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

23. Cash and balances with central banks

Group

	As at December 31	
	2017	2016
Cash	507,808	505,840
Mandatory reserve deposits with central banks ⁽¹⁾	11,550,592	12,118,580
Surplus reserve deposits with central banks	9,383,640	3,925,755
Other deposits with central banks	69,040	817,790
Total	21,511,080	17,367,965
Including:		
Restricted		
– Balances with central banks	11,617,268	12,934,023

Company

	As at December 31	
	2017	2016
Cash	608	542
Other deposits with central banks	2,364	2,347
Total	2,972	2,889

- (1) In accordance with relevant regulations, NCB, subsidiary of bank operations, is required to place mandatory reserve deposits with the People's Bank of China (the "PBOC") for customer deposits in both RMB and foreign currencies. As at December 31, 2017, the mandatory deposits were calculated at 14.5% of customer deposits denominated in RMB and 5% of customer deposits denominated in foreign currencies. Mandatory reserve deposits are not available for use by the Group in its daily operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**24. Deposits with banks and financial institutions****Group**

	As at December 31	
	2017	2016
Deposits with banks		
– House accounts	41,593,165	58,407,792
– Cash held on behalf of clients	8,624,028	11,192,655
Clearing settlement funds		
– House accounts	541,539	1,282,383
– Clients	3,358,825	4,428,664
Deposits with other financial institutions		
– House accounts	311,658	489,772
Total	54,429,215	75,801,266
Including:		
Restricted	17,667,090	38,042,473
– Pledged bank deposits	12,609	888,360
– Clearing settlement funds	3,358,825	4,428,664

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

24. Deposits with banks and financial institutions (Continued)

Company

	As at December 31	
	2017	2016
Deposits with banks	<u>11,568,824</u>	<u>17,325,021</u>
Total	<u>11,568,824</u>	<u>17,325,021</u>

Pledged bank deposits represent deposits that have been pledged to secure short-term bank borrowings.

As at December 31, 2017 and 2016, the Group's clearing settlement funds were interest-bearing at prevailing market interest rates and mainly deposited in the China Securities Depository and Clearing Corporation Limited.

The Company had no balance in clearing settlement funds as at December 31, 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

25. Deposits with exchanges and others

Group

	As at December 31	
	2017	2016
Shanghai Stock Exchange	96,498	512,654
Shenzhen Stock Exchange	24,991	28,527
Hong Kong Stock Exchange	735	5,151
National Equities Exchange and Quotations	1,497	1,068
China Securities Finance Corporation Limited	1,006	508,144
Shanghai Futures Exchange	407,471	341,013
China Financial Futures Exchange	150,452	198,809
Hong Kong Futures Exchange	1,600	1,460
Dalian Commodity Exchange	359,235	313,164
Zhengzhou Commodity Exchange	81,410	135,363
Others	—	2,214
Total	<u>1,124,895</u>	<u>2,047,567</u>

The Company had no deposits with any exchanges or financial institutions at the end of 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

26. Placements with banks and financial institutions

Group

	As at December 31	
	2017	2016
Banks	15,098,410	22,044,100
Other financial institutions	3,062,000	4,233,482
Total	18,160,410	26,277,582

Company

	As at December 31	
	2017	2016
Other financial institutions	–	3,000,000
Total	–	3,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**27. Financial assets at fair value through profit or loss****Group**

	As at December 31	
	2017	2016
Held-for-trading financial assets		
Listed investments:		
Debt securities		
– Government bonds	3,302,452	4,606,825
– Public sector and quasi-government bonds	395,232	1,688,552
– Corporate bonds	9,005,301	8,188,117
Equity instruments	6,546,153	8,720,033
Funds	873,740	1,278,689
	20,122,878	24,482,216
Unlisted investments:		
Funds	5,242,614	3,175,833
Interbank negotiate certificate of deposit	1,337,269	–
Derivative financial assets ⁽¹⁾	381,271	820,826
	6,961,154	3,996,659
Subtotal	27,084,032	28,478,875

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**27. Financial assets at fair value through profit or loss (Continued)****Group (Continued)**

	As at December 31	
	2017	2016
Financial assets designated as at fair value through profit or loss		
Listed investments:		
Corporate convertible bonds	309,224	293,175
Unlisted investments:		
Distressed debt assets	148,790,133	94,458,586
Equity instruments	28,933,536	20,646,522
Funds	4,339,492	—
Wealth management products	1,878,340	3,984,868
Asset management plans	411,074	—
Embedded derivatives debts	404,298	171,691
Corporate convertible bonds	386,478	71,018
Asset-backed securities	54,636	58,004
Others	1,204,616	882,757
Subtotal	186,711,827	120,566,621
Total	213,795,859	149,045,496
Including:		
Corporate bonds pledged for borrowings	—	25,517

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

27. Financial assets at fair value through profit or loss (Continued)

Group (Continued)

(1) Derivative financial instruments

	As at December 31, 2017			As at December 31, 2016		
	Contractual/ Notional amount	Fair value Assets	Liabilities	Contractual/ Notional amount	Fair value Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps	19,909,636	325,568	(262,551)	50,145,311	791,405	(609,680)
Currency options	18,501	65	(65)	24,841	446	(446)
Subtotal	19,928,137	325,633	(262,616)	50,170,152	791,851	(610,126)
Interest rate derivatives						
Interest rate swaps	61,232,355	51,468	(59,905)	35,825,804	17,833	(29,698)
Commodity derivatives and others	1,994,317	4,170	(64,126)	2,953,245	11,142	(213,453)
Total	83,154,809	381,271	(386,647)	88,949,201	820,826	(853,277)

Included in the derivative financial instruments above are those designated as hedging instruments by the Group as follows:

	As at December 31, 2017			As at December 31, 2016		
	Contractual/ Notional amount	Fair value Assets	Liabilities	Contractual/ Notional amount	Fair value Assets	Liabilities
Exchange rate derivatives						
Currency forwards and swaps, and cross-currency interest rate swaps	-	-	-	5,847,222	104,251	(161,916)
Total	-	-	-	5,847,222	104,251	(161,916)

The Group uses cross-currency interest rate swaps to hedge against exposure to cash flow variability primarily from foreign exchange rates and interest rate risks of placement transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**27. Financial assets at fair value through profit or loss (Continued)****Company**

	As at December 31	
	2017	2016
Held-for-trading financial assets		
Equity instruments	1,501,829	—
Financial assets designated as at fair value through profit or loss		
Distressed debt assets	148,801,960	93,763,782
Equity instruments	5,548,426	—
Investment funds ⁽¹⁾	732,928	800,027
Corporate convertible bonds	250,000	—
Others	435,993	572,050
Total	157,271,136	95,135,859
Analysed as:		
Listed	1,501,829	—
Unlisted	155,769,307	95,135,859

(1) This represents investment funds issued by a subsidiary of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**28. Financial assets held under resale agreements****Group**

	As at December 31	
	2017	2016
By collateral type:		
Bonds	53,801,726	37,998,533
Equity instruments	6,332,982	3,989,026
Subtotal	60,134,708	41,987,559
Less: Allowance for impairment losses	25,320	13,597
Total	60,109,388	41,973,962

Company

	As at December 31	
	2017	2016
By collateral type:		
Bonds	33,869,540	32,916,015
Less: Allowance for impairment losses	—	—
Total	33,869,540	32,916,015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**29. Available-for-sale financial assets****Group**

	As at December 31	
	2017	2016
Debt securities		
– Government bonds	29,257,893	14,148,459
– Public sector and quasi-government bonds	8,212,728	10,258,889
– Financial institution bonds	18,783,457	16,639,182
– Corporate bonds	9,520,682	12,563,201
Subtotal	65,774,760	53,609,731
Equity instruments	29,602,415	40,362,393
Certificates of deposit	27,929,436	14,235,718
Funds	101,151,577	65,072,593
Trust products and rights to trust assets	20,612,962	16,486,799
Asset management plans	14,304,585	12,719,609
Wealth management products	11,820,000	6,500,000
Asset-backed securities	1,031,176	1,061,325
Others	955,781	2,447,718
Total	273,182,692	212,495,886

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**29. Available-for-sale financial assets (Continued)****Group (Continued)**

	As at December 31	
	2017	2016
Analysed as:		
Listed	30,734,653	33,363,810
Unlisted	242,448,039	179,132,076
Total	273,182,692	212,495,886
Including:		
Debt securities analysed as:		
Listed	15,194,337	14,194,363
Unlisted	50,580,423	39,415,368
Total	65,774,760	53,609,731
Equity instruments analysed as:		
Listed	4,741,139	6,303,196
Unlisted	24,861,276	34,059,197
Total	29,602,415	40,362,393
Including:		
Debt securities pledged for borrowings	1,292,009	563,218

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

29. Available-for-sale financial assets (Continued)

Company

	As at December 31	
	2017	2016
Debt securities		
– Public sector and quasi-government bonds	131,831	1,316,070
– Financial institution bonds	369,073	99,077
Subtotal	500,904	1,415,147
Equity instruments	23,928,969	33,319,727
Certificates of deposit	13,236,083	1,543,557
Funds	63,800,287	35,803,264
Trust products and rights to trust assets	11,360,881	11,208,629
Asset management plans	2,758,738	4,813,057
Wealth management products	2,000,000	–
Asset-backed securities	787,362	889,750
Total	118,373,224	88,993,131
Analysed as:		
Listed	12,297,736	15,089,139
Unlisted	106,075,488	73,903,992
Total	118,373,224	88,993,131
Including:		
Equity instruments analysed as:		
Listed	2,109,399	2,673,129
Unlisted	21,819,570	30,646,598
Total	23,928,969	33,319,727

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

29. Available-for-sale financial assets (Continued)

Company (Continued)

The Company had no available-for-sale financial assets pledged as securities for borrowings at the end of each reporting period.

Included in the balances are amounts of unlisted equity instruments, funds and other financial assets of RMB40,061.73 million and RMB41,786.53 million of the Group and RMB29,614.33 million and RMB33,873.91 million of the Company as at December 31, 2017 and 2016, respectively, that were measured at cost because their fair values cannot be reliably measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

30. Financial assets classified as receivables

Group

	As at December 31	
	2017	2016
Distressed debt assets		
– Loans acquired from financial institutions	26,552,577	31,297,685
– Accounts receivable acquired from non-financial institutions	197,404,902	160,142,762
	<u>223,957,479</u>	<u>191,440,447</u>
Less: Allowance for impairment losses		
– Individually assessed	1,987,170	1,615,224
– Collectively assessed	6,806,605	5,378,248
	<u>8,793,775</u>	<u>6,993,472</u>
Subtotal	<u>215,163,704</u>	<u>184,446,975</u>
Other financial assets classified as receivables		
– Trust products	15,275,202	7,075,733
– Asset management plans	2,942,500	3,832,500
– Structured debt arrangements ⁽¹⁾	385,951	1,231,955
– Bonds	–	1,109,478
– Other debt instruments	531,538	1,442,527
	<u>19,135,191</u>	<u>14,692,193</u>
Less: Allowance for impairment losses		
– Individually assessed	49,005	328,233
– Collectively assessed	23,019	23,709
	<u>72,024</u>	<u>351,942</u>
Subtotal	<u>19,063,167</u>	<u>14,340,251</u>
Total	<u><u>234,226,871</u></u>	<u><u>198,787,226</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**30. Financial assets classified as receivables (Continued)****Company**

	As at December 31	
	2017	2016
Distressed debt assets		
– Loans acquired from financial institutions	26,552,577	31,313,424
– Accounts receivable acquired from non-financial institutions	197,432,384	160,170,243
	223,984,961	191,483,667
Less: Allowance for impairment losses		
– Individually assessed	1,995,414	1,630,963
– Collectively assessed	6,806,605	5,378,910
	8,802,019	7,009,873
Subtotal	215,182,942	184,473,794
Other financial assets classified as receivables		
– Structured debt arrangements ⁽¹⁾	385,951	1,231,955
– Other debt instruments	531,538	1,442,527
	917,489	2,674,482
Less: Allowance for impairment losses		
– Individually assessed	37,000	121,281
– Collectively assessed	16,799	23,709
	53,799	144,990
Subtotal	863,690	2,529,492
Total	216,046,632	187,003,286

- (1) Structured debt arrangements were entered into by the Company with banks and other financial institutions through structured fund arrangements, and are non-derivative financial assets with fixed return which have no active market. Such arrangements were managed as loans and receivables and accounted for as financial assets classified as receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**30. Financial assets classified as receivables (Continued)**

The movements of allowance for impairment losses during the years are:

Group

	Individually assessed allowance	2017 Collectively assessed allowance	Total
As at January 1	1,943,457	5,401,957	7,345,414
Impairment losses recognized	2,104,038	1,427,667	3,531,705
Impairment losses reversed	(383,505)	–	(383,505)
Impairment losses written off and transfer out	(1,510,585)	–	(1,510,585)
Unwinding of discount on allowance	(117,230)	–	(117,230)
As at December 31	<u>2,036,175</u>	<u>6,829,624</u>	<u>8,865,799</u>
		2016	
	Individually assessed allowance	Collectively assessed allowance	Total
As at January 1	1,366,622	5,049,140	6,415,762
Impairment losses recognized	1,242,737	369,531	1,612,268
Impairment losses reversed	(131,737)	–	(131,737)
Impairment losses written off and transfer out	(434,781)	(16,714)	(451,495)
Unwinding of discount on allowance	(99,384)	–	(99,384)
As at December 31	<u>1,943,457</u>	<u>5,401,957</u>	<u>7,345,414</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

30. Financial assets classified as receivables (Continued)

Company

	2017		
	Individually assessed allowance	Collectively assessed allowance	Total
As at January 1	1,752,244	5,402,619	7,154,863
Impairment losses recognized	2,110,344	1,420,785	3,531,129
Impairment losses reversed	(185,854)	–	(185,854)
Impairment losses written off and transfer out	(1,527,090)	–	(1,527,090)
Unwinding of discount on allowance	(117,230)	–	(117,230)
As at December 31	<u>2,032,414</u>	<u>6,823,404</u>	<u>8,855,818</u>
	2016		
	Individually assessed allowance	Collectively assessed allowance	Total
As at January 1	1,285,448	5,099,983	6,385,431
Impairment losses recognized	1,132,577	302,636	1,435,213
Impairment losses reversed	(131,737)	–	(131,737)
Impairment losses written off and transfer out	(434,660)	–	(434,660)
Unwinding of discount on allowance	(99,384)	–	(99,384)
As at December 31	<u>1,752,244</u>	<u>5,402,619</u>	<u>7,154,863</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**31. Loans and advances to customers****Group**

	As at December 31	
	2017	2016
Corporate loans and advances		
– Loans and advances	230,037,644	213,346,550
– Discounted bills	949,230	2,419,029
Subtotal	230,986,874	215,765,579
Personal loans and advances		
– Mortgages	24,699,191	24,840,116
– Personal consumption loans	10,069,065	9,358,059
Subtotal	34,768,256	34,198,175
Loans to margin clients	7,708,387	7,655,945
Finance lease receivables	45,571,944	42,847,659
Gross loans and advances	319,035,461	300,467,358
Less: Allowance for impairment losses		
– Individually assessed	3,291,803	2,066,194
– Collectively assessed	3,626,138	3,464,573
Subtotal	6,917,941	5,530,767
Net loans and advances to customers	312,117,520	294,936,591

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

31. Loans and advances to customers (Continued)

Group (Continued)

Loans and advances analyzed by collective and individual assessment method are as follows:

	Loans and advances for which allowance is collectively assessed	Identified impaired loans and advances			Total	Identified impaired loans and advances to customers as a % of total loans and advances
		For which allowance is collectively assessed	For which allowance is individually assessed	Subtotal		
At December 31, 2017						
Gross loans and advances	312,482,035	109,647	6,443,779	6,553,426	319,035,461	2.05%
Less: Allowances for impairment losses	<u>3,545,961</u>	<u>80,177</u>	<u>3,291,803</u>	<u>3,371,980</u>	<u>6,917,941</u>	
Net loans and advances to customers	<u><u>308,936,074</u></u>	<u><u>29,470</u></u>	<u><u>3,151,976</u></u>	<u><u>3,181,446</u></u>	<u><u>312,117,520</u></u>	
	Loans and advances for which allowance is collectively assessed	Identified impaired loans and advances			Total	Identified impaired loans and advances to customers as a % of total loans and advances
		For which allowance is collectively assessed	For which allowance is individually assessed	Subtotal		
At December 31, 2016						
Gross loans and advances	295,758,305	12,494	4,696,559	4,709,053	300,467,358	1.57%
Less: Allowances for impairment losses	<u>3,464,198</u>	<u>375</u>	<u>2,066,194</u>	<u>2,066,569</u>	<u>5,530,767</u>	
Net loans and advances to customers	<u><u>292,294,107</u></u>	<u><u>12,119</u></u>	<u><u>2,630,365</u></u>	<u><u>2,642,484</u></u>	<u><u>294,936,591</u></u>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

31. Loans and advances to customers (Continued)

Group (Continued)

The movements of allowance for loans and advances to customers during the years are:

	For the year ended December 31, 2017		
	Individually assessed allowance	Collectively assessed allowance	Total
As at January 1	2,066,194	3,464,573	5,530,767
Impairment losses recognized	1,990,866	821,417	2,812,283
Impairment losses reversed	(343,601)	(593,872)	(937,473)
Impairment losses written off and transfer out	(418,685)	(3,160)	(421,845)
Recovery of loans and advances written off in previous years	18,836	483	19,319
Unwinding of discount on allowance	(4,634)	–	(4,634)
Exchange differences	(17,173)	(63,303)	(80,476)
As at December 31	<u>3,291,803</u>	<u>3,626,138</u>	<u>6,917,941</u>
	For the year ended December 31, 2016		
	Individually assessed allowance	Collectively assessed allowance	Total
As at January 1	1,985,674	2,042,817	4,028,491
Transfer in	550,546	885,404	1,435,950
Impairment losses recognized	772,062	836,212	1,608,274
Impairment losses reversed	(907,836)	(260,164)	(1,168,000)
Impairment losses written off and transfer out	(342,564)	(62,123)	(404,687)
Recovery of loans and advances written off in previous years	15,723	767	16,490
Unwinding of discount on allowance	(2,208)	–	(2,208)
Exchange differences	(5,203)	21,660	16,457
As at December 31	<u>2,066,194</u>	<u>3,464,573</u>	<u>5,530,767</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

31. Loans and advances to customers (Continued)

Group (Continued)

Finance lease receivables are analyzed as follows:

	As at December 31	
	2017	2016
Minimum finance lease receivables:		
Within 1 year (inclusive)	22,354,602	18,426,820
1 year to 5 years (inclusive)	26,187,211	27,453,206
Over 5 years	1,228,223	978,055
Gross amount of finance lease receivables	49,770,036	46,858,081
Less: Unearned finance income	4,198,092	4,010,422
Net amount of finance lease receivables	45,571,944	42,847,659
Less: Allowance for impairment losses	1,373,148	1,216,035
Carrying amount of finance lease receivables	44,198,796	41,631,624
Present value of minimum lease receivables:		
Within 1 year (inclusive)	20,194,676	16,462,836
1 year to 5 years (inclusive)	24,228,402	25,498,798
Over 5 years	1,148,866	886,025
Total	45,571,944	42,847,659
Including:		
Finance lease receivables pledged for borrowings	982,109	1,931,825

The Company had no loans and advances to customers as at December 31, 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**32. Accounts receivable****Group**

	As at December 31	
	2017	2016
Accounts receivable relating to distressed debt assets	1,677,236	1,485,052
Accounts receivable relating to equity assets ⁽¹⁾	1,182,830	1,032,248
Accounts receivable from sales of properties	155,103	470,892
Commission and fee receivable	382,702	316,506
Insurance premium and reinsurance refund receivables	117,140	98,484
Others	372,586	247,032
Subtotal	3,887,597	3,650,214
Less: Allowance for impairment losses	158,462	128,100
Total	3,729,135	3,522,114

Company

	As at December 31	
	2017	2016
Accounts receivable relating to distressed debt assets	1,677,236	1,485,052
Accounts receivable relating to equity assets ⁽¹⁾	484,049	679,964
Others	101,923	1,924
Subtotal	2,263,208	2,166,940
Less: Allowance for impairment losses	189,893	89,893
Total	2,073,315	2,077,047

- (1) As at December 31, 2017, the major component comprise an outstanding amount of RMB484.05 million (December 31, 2016: RMB679.96 million) mainly arising from disposals of several debt-to-equity assets. These receivables bear interest at nil to 7.5% per annum (December 31, 2016: Nil to 6.15%). The outstanding balances are repayable no later than January 31, 2019 (December 31, 2016: no later than November 20, 2017).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

32. Accounts receivable (Continued)

The ageing analysis of accounts receivable is as follows:

Accounts receivable relating to distressed assets

Group and Company

	2017			As at December 31				
	Gross amount	%	Impairment	Carrying amount	Gross amount	%	Impairment	Carrying amount
Within 1 year (inclusive)	1,548,389	71	–	1,548,389	1,354,447	63	–	1,354,447
1 year to 2 years (inclusive)	–	–	–	–	24,500	1	–	24,500
2 years to 3 years (inclusive)	13,500	1	–	13,500	227,940	11	–	227,940
Over 3 years	599,396	28	(89,893)	509,503	558,129	25	(89,893)	468,236
Total	<u>2,161,285</u>	<u>100</u>	<u>(89,893)</u>	<u>2,071,392</u>	<u>2,165,016</u>	<u>100</u>	<u>(89,893)</u>	<u>2,075,123</u>

No ageing analysis is disclosed on items such as accounts receivable from sales of properties, insurance premium and reinsurance refund receivables, commission and fee receivable, as they are mostly current and due within one year. Other items are considered insignificant. In the opinion of the directors of the Company, the ageing analysis of these items does not give additional value to the readers of this report in view of the nature of these items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

32. Accounts receivable (Continued)

The movements of allowance for impairment loss during the years are:

Group

	Year ended December 31	
	2017	2016
At beginning of the year	128,100	160,057
Impairment losses recognized	53,812	6,949
Impairment losses reversed	(22,718)	(5,137)
Amounts written off and transfer out	(732)	(33,769)
	<u>158,462</u>	<u>128,100</u>

Company

	Year ended December 31	
	2017	2016
At beginning of the year	89,893	89,893
Impairment losses recognized	100,000	—
	<u>189,893</u>	<u>89,893</u>

33. Amounts due from subsidiaries

Amounts due from subsidiaries are unsecured. The Company expected to recover a majority portion of the amounts due from subsidiaries within one year from the end of 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

34. Held-to-maturity investments

Group

	As at December 31	
	2017	2016
Debt securities		
– Government bonds	5,775,745	6,185,527
– Public sector and quasi-government bonds	3,386,079	4,655,865
– Financial institution bonds	3,087,182	1,009,626
– Corporate bonds	978,357	784,603
Total	13,227,363	12,635,621

The Company had no held-to-maturity investments as at December 31, 2017 and 2016. Most held-to-maturity investments held by the Group are traded in interbank market and stock exchange. The fair values disclosed in note VI.76.1 are derived from quoted market prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

35. Properties held for sale

Group

	As at December 31	
	2017	2016
Completed properties	5,593,278	6,115,827
Properties under development	32,208,932	38,580,157
Others	18,354	20,537
Subtotal	37,820,564	44,716,521
Less: Allowance for impairment losses	536,762	240,137
Total	<u>37,283,802</u>	<u>44,476,384</u>
Including:		
Pledged for borrowings	<u>14,257,483</u>	<u>14,103,068</u>

As at December 31, 2017 and 2016, included in the properties held for sale were amounts of RMB21,010 million and RMB32,629 million which represented the carrying amounts of the properties not expected to be completed and sold within twelve months from the end of each reporting period.

The Company had no properties held for sale at the end of 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

36. Investment properties

Group

	Year ended December 31	
	2017	2016
Cost		
At beginning of the year	2,167,637	2,571,758
Acquisition of subsidiaries	453,114	298,535
Additions during the year	970,112	61,575
Transfer in/(out)	430,648	(211,049)
Disposals	–	(293,873)
Disposal of subsidiaries	(23,642)	(259,309)
At end of the year	3,997,869	2,167,637
Accumulated depreciation		
At beginning of the year	(549,498)	(668,738)
Acquisition of subsidiaries	(19,585)	–
Change for the year	(122,496)	(93,525)
Transfer out	–	21,716
Disposals	–	116,683
Disposal of subsidiaries	2,146	74,366
At end of the year	(689,433)	(549,498)
Allowance for impairment losses		
At beginning of the year	(1,235)	(1,235)
Change for the year	(8,923)	–
At end of the year	(10,158)	(1,235)
Net book value		
At beginning of the year	1,616,904	1,901,785
At end of the year	3,298,278	1,616,904
Net book value of investment properties pledged for borrowings	140,235	983,285

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

36. Investment properties (Continued)

Group (Continued)

The net book value of investment properties is analyzed based on the remaining terms of the leases as follows:

	As at December 31	
	2017	2016
Net book value:		
– on long-term lease (over 50 years)	38,896	18,358
– on medium-term lease (10 to 50 years)	3,143,817	1,407,489
– on short-term lease (less than 10 years)	<u>115,565</u>	<u>191,057</u>
Total	<u><u>3,298,278</u></u>	<u><u>1,616,904</u></u>

As at December 31, 2017 and 2016, the Group's investment properties which the Group has not obtained certificate of land use right or certificate of property ownership amounted to RMB0.15 million and RMB1.00 million, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**36. Investment properties (Continued)****Company**

	Year ended December 31	
	2017	2016
Cost		
At beginning of the year	<u>438,758</u>	<u>438,758</u>
At end of the year	<u>438,758</u>	<u>438,758</u>
Accumulated depreciation		
At beginning of the year	(103,209)	(87,074)
Change for the year	<u>(16,135)</u>	<u>(16,135)</u>
At end of the year	<u>(119,344)</u>	<u>(103,209)</u>
Net book value		
At beginning of the year	<u>335,549</u>	<u>351,684</u>
At end of the year	<u>319,414</u>	<u>335,549</u>

The net book value of investment properties is analyzed based on the remaining terms of the leases as follows:

	As at December 31	
	2017	2016
Net book value:		
– on medium-term lease (10 to 50 years)	<u>319,414</u>	<u>335,549</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

37. Interests in subsidiaries

		<u>Company</u>				As at December 31			
						2017		2016	
At cost						46,934,396		43,677,112	
Total						46,934,396		43,677,112	
Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorized/ paid-in capital as at December 31, 2017 (In '000)	Proportion of ownership held by the Group		Proportion of voting rights held by the Group		Principal activities	
				As at December 31 2017 %(1)	2016 %(1)	As at December 31 2017 %(1)	2016 %(1)		
China Cinda (HK) Holdings Co., Ltd.*	Hong Kong, PRC	December 16, 1998	HKD24,975,487	100.00	100.00	100.00	100.00	Investment holding	
Zhongrun Economic Development Co., Ltd.*	Beijing, PRC	May 8, 2000	RMB30,000	100.00	100.00	100.00	100.00	Investment management	
Cinda Securities Co., Ltd.*	Beijing, PRC	September 4, 2007	RMB2,568,700	99.33	99.33	99.33	99.33	Securities brokerage	
Cinda Investment Co., Ltd.*	Beijing, PRC	August 1, 2000	RMB2,000,000	100.00	100.00	100.00	100.00	Business investment	
Happy Life Insurance Co., Ltd.* ⁽²⁾	Beijing, PRC	November 5, 2007	RMB10,130,376	51.00	51.00	51.00	51.00	Life insurance	
China Jingu International Trust Co., Ltd.*	Beijing, PRC	April 21, 1993	RMB2,200,000	92.29	92.29	92.29	92.29	Trust service	
Cinda Financial Leasing Co., Ltd.*	Lanzhou, PRC	December 28, 1996	RMB3,505,249	99.92	99.91	99.92	99.91	Financial leasing	
Nanyang Commercial Bank, Limited	Hong Kong, PRC	February 2, 1948	HKD3,144,517	100.00	100.00	100.00	100.00	Commercial Bank	
China Cinda (HK) Asset Management Co., Ltd.	Hong Kong, PRC	April 21, 1999	HKD0.002	100.00	100.00	100.00	100.00	Asset management	
China Cinda Fund Management Co., Ltd.	Hong Kong, PRC	June 23, 1999	HKD0.002	100.00	100.00	100.00	100.00	Fund management	
China Cinda (HK) Investment Management Co., Ltd.	Hong Kong, PRC	November 22, 2006	HKD0.001	100.00	100.00	100.00	100.00	Investment holding	
Cinda (China) Investment Co., Ltd.	Hong Kong, PRC	March 24, 1994	HKD10	100.00	100.00	100.00	100.00	Investment holding	
China Cinda (Macau) Asset Management Co., Ltd.	Macao, PRC	May 28, 1999	MOP100	100.00	100.00	100.00	100.00	Asset management	
Well Kent International Group Co., Ltd.	Hong Kong, PRC	May 27, 1993	HKD100	100.00	100.00	100.00	100.00	Investment holding	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

37. Interests in subsidiaries (Continued)

Company (Continued)

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorized/ paid-in capital as at December 31, 2017 (In '000)	Proportion of ownership held by the Group		Proportion of voting rights held by the Group		Principal activities
				As at December 31 2017 %(1)	2016 %(1)	As at December 31 2017 %(1)	2016 %(1)	
Cinda Financial Holdings Co., Limited	Hong Kong, PRC	August 11, 2015	HKD68,000,001	100.00	100.00	100.00	100.00	Investment holding
Cinda Futures Co., Ltd.	Hangzhou, PRC	October 5, 1995	RMB500,000	99.33	99.33	100.00	100.00	Futures and brokerage
Xinfeng Investment Management Co., Ltd.	Beijing, PRC	April 9, 2012	RMB200,000	99.33	99.33	100.00	100.00	Investment management
Cinda Innovation Investment Co., Ltd.	Beijing, PRC	August 20, 2013	RMB100,000	99.33	99.33	100.00	100.00	Investment management
First State Cinda Fund Management Co., Ltd.	Shenzhen, PRC	June 5, 2006	RMB100,000	53.64	53.64	54.00	54.00	Fund management
Hainan Jianxin Investment Management Co., Ltd.	Haikou, PRC	April 10, 1993	RMB112,500	100.00	100.00	100.00	100.00	Investment management
Sanya Horizon Industry Co., Ltd.	Sanya, PRC	December 19, 1992	RMB60,000	51.00	51.00	51.00	51.00	Real estate development
Shanghai Tongda Venture Capital Co., Ltd. ⁽¹⁾⁽³⁾	Shanghai, PRC	July 27, 1991	RMB139,144	41.02	41.02	41.02	41.02	Investment management
Shenzhen Jianxin Investment Development Co., Ltd.	Shenzhen, PRC	April 21, 1993	RMB100,000	100.00	100.00	100.00	100.00	Business investment
Hebei Cinda Jinjian Investment Co., Ltd.	Langfang, PRC	November 24, 1998	RMB76,000	100.00	100.00	100.00	100.00	Business investment
Henan Jinboda Investment Co., Ltd.	Zhengzhou, PRC	February 23, 1993	RMB100,000	100.00	100.00	100.00	100.00	Property leasing
Cinda Capital Management Co., Ltd.	Tianjin, PRC	December 16, 2008	RMB100,000	100.00	100.00	100.00	100.00	Investment holding
Wuhan Oriental Jianguo Hotel Co., Ltd.	Wuhan, PRC	December 15, 1995	RMB282,000	90.25	90.25	90.25	90.25	Hotel management
Cinda Real Estate Co., Ltd. ⁽¹⁾	Beijing, PRC	July 20, 1984	RMB1,524,260	51.49	51.49	51.49	51.49	Real estate development
Cinda Jianrun Real Estate Co., Ltd.	Beijing, PRC	December 28, 2007	RMB200,000	70.00	70.00	70.00	70.00	Real estate development
Dalian Cinda Zhonglian Investment Co., Ltd.	Dalian, PRC	March 3, 2010	RMB51,110	55.00	55.00	55.00	55.00	Project investment
Cinda International Holdings Limited ⁽¹⁾	Bermuda	December 31, 2008	HKD64,121	63.00	63.00	63.00	63.00	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

37. Interests in subsidiaries (Continued)

Company (Continued)

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorized/ paid- in capital	Proportion of ownership		Proportion of voting rights		Principal activities
			as at	held by the Group	held by the Group			
			December 31, 2017	As at December 31	As at December 31			
			(In '000)	2017	2016	2017	2016	
				% ⁽¹⁾	% ⁽¹⁾	% ⁽¹⁾	% ⁽¹⁾	
Beijing Cinda Shiyuxin Investment Management Co., Ltd.	Beijing, PRC	May 11, 2015	RMB10,000	51.49	51.49	100.00	100.00	Asset management
Cinda Equity Investment (Tianjin) Co., Ltd. ⁽⁴⁾	Tianjin, PRC	December 29, 2011	RMB790,000	36.71	36.71	36.71	36.71	Private fund
Hefei Asia-Pacific Science and Technology Development Co., Ltd.	Hefei, PRC	September 30, 1999	RMB23,000	51.49	51.49	100.00	100.00	Real estate development
Hangzhou Saiyue Investment Management Co., Ltd.	Hangzhou, PRC	February 17, 2016	RMB5,000	51.49	51.49	100.00	100.00	Business investment
Hangzhou Cinda Huayi Investment Management Co., Ltd. ^(III)	Hangzhou, PRC	September 7, 2016	RMB5,000	100.00	–	100.00	–	Investment management
Ningbo Meishan Tax-protected Zone Runzhe Asset Management Co., Ltd. ^(III)	Ningbo, PRC	February 13, 2017	RMB60,000	100.00	–	100.00	–	Investment management
Guangzhou Xinsheng Architectural Decoration Engineering Co., Ltd. ^(III)	Guangzhou, PRC	May 31, 2017	RMB2,000	51.49	–	100.00	–	Architectural Decoration
Beijing Cinda Real Estate Development Co., Ltd. ^(III)	Beijing, PRC	September 14, 2015	RMB10,000	51.49	–	100.00	–	Real estate development
Urumqi Cinda Haide Hotel Management Co. Ltd. ^(III)	Urumqi, PRC	August 17, 2017	RMB300	100.00	–	100.00	–	Hotel management
Cinda Property and Casualty Insurance Co., Ltd. ^{(IV)(5)}	Beijing, PRC	August 31, 2009	RMB3,000,000	10.00	51.00	10.00	51.00	Property insurance
Cinda Insurance Brokerage Co., Ltd. ^(IV)	Chongqing, PRC	June 3, 2014	RMB50,000	10.00	51.00	10.00	100.00	Insurance agency
Beijing Yintai Property Management Co., Ltd. ^(IV)	Beijing, PRC	September 24, 1998	RMB10,000	34.00	100.00	34.00	100.00	Property management
Shenyang Deli Real Estate Co., Ltd. ^(IV)	Shenyang, PRC	January 5, 2013	RMB10,000	25.75	51.49	50.00	100.00	Real estate development

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

37. Interests in subsidiaries (Continued)

Company (Continued)

Name of entity	Place of incorporation/ establishment	Date of incorporation/ establishment	Authorized/ paid- in capital	Proportion of ownership		Proportion of voting rights		Principal activities
			as at	held by the Group		held by the Group		
			December 31, 2017	As at December 31		As at December 31		
			(In '000)	2017	2016	2017	2016	
				%(1)	%(1)	%(1)	%(1)	
Shenyang Suigang Real Estate Investment and Development Co., Ltd. ^(IV)	Shenyang, PRC	November 14, 2002	RMB300,000	25.75	51.49	50.00	100.00	Real estate development
Changchun Cinda Fengrui Real Estate Development Co., Ltd. ^(IV)	Changchun, PRC	August 27, 2010	RMB200,000	20.96	41.91	40.70	81.40	Real estate development
Hainan Happy City Investment Co., Ltd. ^(IV)	Dingan, PRC	April 8, 2008	RMB20,000	25.23	36.04	49.00	70.00	Real estate development
Yantai Jingdu Property Management Co., Ltd. ^(IV)	Yantai, PRC	April 28, 2004	RMB1,000	–	65.30	–	70.30	Property management
Hainan Yuanshicun Property Management Co., Ltd. ^(IV)	Haikou, PRC	November 17, 2004	RMB1000	–	100.00	–	100.00	Property management

The above table lists the principal subsidiaries of the Company. To give details of other subsidiaries would, in the opinion of the management, result in particulars of excessive length.

* These subsidiaries are directly held by the Company.

(I) The shares of these subsidiaries are listed in Mainland China.

(II) The shares of these subsidiaries are listed in Hong Kong.

(III) These subsidiaries were established in 2017.

(IV) The subsidiaries were disposed of or partially disposed of in 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

37. Interests in subsidiaries (Continued)

Company (Continued)

- (1) The percentage of voting rights is combined by direct holding percentage and indirect controlling percentage of the subsidiaries. The percentage of ownership is the multiple of holding percentages of different control level.
- (2) In 2017, the shareholders made an equal proportion of an additional capital injection to this subsidiary. After the capital injection, the authorized capital of this subsidiary increased from RMB6,009.92 million to RMB10,130.38 million.
- (3) The Group's shareholding in Shanghai Tongda Venture Capital Co., Ltd. ("Shanghai Tongda") is less than 50%, but the shareholding percentage of other shareholders is widely dispersed. Moreover, according to the corporate charter, the Board resolutions must be approved by more than half of all the directors, and the Group take three of the four seats of Shanghai Tongda's Board, with the exception of two independent directors. Therefore, Shanghai Tongda is accounted for as a subsidiary of the Company.
- (4) The Group's shareholding in Cinda Equity Investment (Tianjin) Co., Ltd. ("Cinda Equity") is less than 50%. According to the corporate charter, the key persons in the Investment Committee, which is the operating decision-making institution of Cinda Equity, are all from the Group. Thus, the Group can direct Cinda Equity's relevant activities, and it is therefore accounted for as a subsidiary of the Company.
- (5) The Company entered into a Sale and Purchase Agreement with Shenzhen Investment Holding Co., Ltd. in relation to the sale of 41% of the issued shares of Cinda Property and Casualty Insurance Co., Ltd.. The sale was completed on 13 April 2017 in accordance with the terms and conditions of the Sale and Purchase Agreement. Upon completion, the remaining shares held by the Company were 10%, and Cinda Property and Casualty Insurance Co., Ltd. ceased to be included in consolidated financial statements as a subsidiary of the Company. (see note IV.77)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

38. Non-controlling interests in the subsidiaries of the Group

Cinda Real Estate Co., Ltd. and Happy Life Insurance Co., Ltd. are the subsidiaries which have significant influence on non-controlling interests in consolidated financial statements of the Group.

General information about these subsidiaries have been set out in note VI.37. Summarized financial information about the subsidiaries before intra-group eliminations are as follows:

Cinda Real Estate Co., Ltd.

	As at December 31	
	2017	2016
Current assets	62,404,712	58,113,648
Non-current assets	9,548,043	7,011,088
Current liabilities	32,384,756	25,189,326
Non-current liabilities	29,500,857	30,617,598
Total equity	10,067,142	9,317,812
Non-controlling interests of the subsidiary	4,997,396	4,674,278
	Year ended December 31	
	2017	2016
Total revenue	15,216,049	11,570,682
Profit before tax	1,775,144	1,308,263
Total comprehensive income	1,065,187	700,856
Profit attributable to non-controlling interests of the subsidiary during the year	544,475	399,246
Dividend distribution to non-controlling interests	154,235	73,942

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

38. Non-controlling interests in the subsidiaries of the Group (Continued)

Cinda Real Estate Co., Ltd. (Continued)

	Year ended December 31	
	2017	2016
Net cash flow from operating activities	14,412,331	(1,491,139)
Net cash flow from investing activities	(4,460,848)	448,393
Net cash flow from financing activities	(2,135,433)	3,702,450
Net increase in cash and cash equivalents	<u>7,816,050</u>	<u>2,659,704</u>

Happy Life Insurance Co., Ltd.

	As at December 31	
	2017	2016
Total assets	<u>72,853,908</u>	<u>67,023,023</u>
Total liabilities	<u>64,620,343</u>	<u>64,505,462</u>
Total equity	<u>8,233,565</u>	<u>2,517,561</u>
Non-controlling interests of the subsidiary	<u>4,034,447</u>	<u>1,233,605</u>

	Year ended December 31	
	2017	2016
Total revenue	23,573,396	18,819,953
Profit before tax	48,913	23,296
Total comprehensive income	(670,703)	(2,285,448)
Profit attributable to non-controlling interests of the subsidiary during the year	24,196	8,828
Dividend distribution to non-controlling interests	<u>-</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

38. Non-controlling interests in the subsidiaries of the Group (Continued)

Happy Life Insurance Co., Ltd. (Continued)

	Year ended December 31	
	2017	2016
Net cash flow from operating activities	(4,248,477)	7,993,130
Net cash flow from investing activities	(154,405)	(4,415,667)
Net cash flow from financing activities	5,229,490	(2,849,722)
	<u> </u>	<u> </u>
Net increase in cash and cash equivalents	<u>826,608</u>	<u>727,741</u>

39. Interests in consolidated structured entities

The Group had consolidated certain structured entities including private equity funds, trusts, asset management plans. To determine whether control exists, the Group uses the following judgements:

- (1) For the private equity funds, trusts and asset management plans, to which the Group provides financial guarantees, the Group has an obligation to fund the losses beyond its investments, if any, in accordance with the guarantee agreements. The Group concludes that its exposure to variability of returns is of such significance that these structured entities shall be consolidated.
- (2) For the private equity funds where the Group involves as both general partner and limited partner, the Group assesses whether the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of the funds that is of such significance that it indicates that the Group is a principal. The funds shall be consolidated if the Group acts in the role of principal.
- (3) For the trusts or asset management plans where the Group involves as manager or trustee and also as investor, the Group assesses whether the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of such trusts or asset management plans that is of such significance that it indicates that the Group is a principal. The trusts or asset management plans shall be consolidated if the Group acts in the role of principal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

39. Interests in consolidated structured entities (Continued)

Details of the Group's significant consolidated structured entities are as follows:

Name of structured entity	Paid-in capital/size of Trust plan	Proportion of interests held By the Group		Principal activities
	As at	As at		
	December 31 2017 (In RMB'000)	December 31 2017 (%)	2016 (%)	
Ningbo Meishan Bonded Port Area Jusheng Jiada Investment Partnership (Limited Partnership)	9,002,000	87.78	81.67	Investment management
Ningbo Datai Investment Partnership (Limited Partnership)	6,232,439	18.73	18.70	Investment management
Shenzhen Xinting Investment Partnership No.1 (Limited Partnership)	5,710,000	99.82	99.81	Investment management
Wuhu Xinshi Heli Investment Management Partnership (Limited Partnership)	4,024,670	100.00	–	Investment management
Ningbo Meishan Bonded Port Area Xinjinyang Investment Partnership (Limited Partnership)	3,000,000	100.00	–	Investment management
Ningbo Juxin Xizhao Investment Management Partnership (Limited Partnership)	2,950,000	52.54	100.00	Investment management
Ningbo Meishan Bonded Port Area Xinyukang Investment Partnership (Limited Partnership)	2,750,000	72.55	74.71	Investment management
Ningbo Meishan Bonded Port Area Cinda Xinheng Investment Partnership (Limited Partnership)	2,651,000	94.34	94.34	Investment management
Wuhu Xinshi Xinye Investment Management Partnership (Limited Partnership)	1,977,100	100.00	100.00	Investment management
Shenzhen Cinda City Development Investment Partnership (Limited Partnership)	1,926,000	100.00	100.00	Investment management
Changxing Sangde Investment Partnership (Limited Partnership)	1,902,000	73.61	–	Investment management
Ningbo Dongdaxin Investment Partnership (Limited Partnership)	1,800,000	100.00	100.00	Investment management

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

39. Interests in consolidated structured entities (Continued)

Name of structured entity	Paid-in	Proportion of		Principal activities
	capital/size of	interests held By		
	Trust plan	the Group		
	As at	As at		
	December 31	December 31	2016	
	2017	2017	(%)	(%)
	(In RMB'000)	(%)	(%)	
Shanghai Qixin Investment Partnership (Limited Partnership)	1,800,000	99.94	99.94	Investment management
Hainan Shoutai Rongxin Equity Investment Partnership (Limited Partnership)	1,758,500	44.92	44.92	Investment management
Ningbo Hejian Guanlan Investment Partnership (Limited Partnership)	1,700,200	100.00	100.00	Investment management
Ningbo Meishan Bonded Port Area Huashi Investment Partnership (Limited Partnership)	1,690,000	100.00	87.80	Investment management
Ningbo Xintai Kaiyuan Equity Investment Partnership (Limited Partnership)	1,500,100	99.99	100.00	Investment management
Ningbo Cinda Longteng Investment Partnership (Limited Partnership)	1,500,000	100.00	100.00	Investment management
Shanghai Yuxin Equity Investment Partnership (Limited Partnership)	1,490,665	99.87	77.06	Investment management
Xizang Yongjun Equity Investment Partnership (Limited Partnership)	1,229,200	99.96	99.96	Investment management
Ningbo Chunhong Investment Management Partnership II (Limited Partnership)	1,188,000	68.90	3.51	Investment management
Wuhu Xinwen Investment Partnership (Limited Partnership)	1,098,000	91.07	100.00	Investment management
Ningbo Meishan Bonded Port Area Xinshan Investment Partnership (Limited Partnership)	1,005,000	100.00	100.00	Investment management
Ningbo Huajian Dingsheng Equity Investment Partnership (Limited Partnership)	1,001,000	89.91	99.91	Investment management

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

39. Interests in consolidated structured entities (Continued)

Name of structured entity	Paid-in capital/size of Trust plan	Proportion of interests held By the Group		Principal activities
	As at	As at		
	December 31 2017 (In RMB'000)	December 31 2017 (%)	2016 (%)	
Ningbo Meishan Bonded Port Area Fusheng Qianlong Zunpin Investment Partnership (Limited Partnership)	1,000,000	100.00	100.00	Investment management
Ningbo Meishan Bonded Port Area Wanfang Jialong Investment Partnership (Limited Partnership)	1,000,000	90.00	–	Investment management
Cinda Chuangli Assets Management Plan No.1	6,123,734	16.58	17.92	Asset management plan
Cinda Longxin Real Estate Assets Management Plan	1,700,000	100.00	100.00	Asset management plan
Beijing Xinghuo Single Capital Trust [2014] No.009	4,653,121	100.00	100.00	Trust

The financial impact of each of the private equity funds, trusts, asset management plans on the Group's financial position as at December 31, 2017 and 2016, and results and cash flows for the years ended December 31, 2017 and 2016, though consolidated, are not significant and therefore not disclosed separately.

Interests in all consolidated structured entities directly held by the Company amounted to RMB34,056.17 million and RMB36,433.71 million, at December 31, 2017 and 2016, respectively.

Interests held by other interest holders are presented as changes in net assets attributable to other holders of consolidated structured entities in the consolidated statement of profit or loss and included in other liabilities in the consolidated statement of financial position as set out in note VI.61.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

40. Interests in associates and joint ventures

Group

	As at December 31	
	2017	2016
Interests in associates		
Carrying amount of unlisted companies	27,673,372	4,554,619
Carrying amount of listed companies	19,457,304	10,231,791
Allowance for impairment losses	(60,413)	(60,413)
Net carrying amounts of associates	47,070,263	14,725,997
Interests in joint ventures		
Carrying amount of unlisted companies	22,780,802	4,837,603
Net carrying amounts of joint ventures	22,780,802	4,837,603
Net carrying amounts	69,851,065	19,563,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**40. Interests in associates and joint ventures (Continued)****Company**

	As at December 31	
	2017	2016
Interests in associates		
Carrying amount of unlisted companies	15,796,473	533,018
Carrying amount of listed companies	13,593,392	8,801,251
Net carrying amounts of associates	29,389,865	9,334,269
Interests in joint ventures		
Carrying amount of unlisted companies	14,424,164	2,919,426
Net carrying amounts of joint ventures	14,424,164	2,919,426
Net carrying amounts	43,814,029	12,253,695

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

40. Interests in associates and joint ventures (Continued)

Name of entity	Place of	Authorized/	Book value			Proportion of equity interests		Proportion of voting power		Principal activities
	incorporation/	paid-in capital				held by the Group		held by the Group		
	establishment					As at December 31		As at December 31		
	principal	As at				As at December 31		As at December 31		
	activities	December 31	As at December 31			As at December 31		As at December 31		
		2017	2017	2016	2017	2016	2017	2016		
		(In'000)	(In'000)	(In'000)	%	%	%	%		
Shenhua Group Zhungeer Energy Co., Ltd.	Ordos, PRC	RMB7,102,343	13,148,386	—	42.24	—	42.24	—	Coal mining	
Yancoal Australia Ltd. ⁽¹⁾	Australia	AUD5,023,000	5,062,495	—	16.70	—	16.70	—	Coal mining	
Wuhu Xinyunhanshi Investment Partnership (Limited Partnership) ⁽²⁾	Wuhu, PRC	RMB5,379,050	4,276,614	—	79.55	—	33.33	—	Investment holding	
Xishan Coal Electricity Group Co., Ltd.	Taiyuan, PRC	RMB9,250,327	4,181,320	—	41.14	—	41.14	—	Coal mining	
Shenzhen Tencent Cinda Limited Partnership (Limited Partnership) ⁽²⁾	Shenzhen, PRC	RMB11,007,330	4,035,570	—	36.35	—	50.00	—	Investment holding	
Zhongxin Boda (wuhu) Investment Partnership (Limited Partnership) ⁽²⁾	Wuhu, PRC	RMB4,803,340	3,476,670	387,020	74.50	74.50	33.33	33.33	Investment holding	
China Nuclear Engineering Co., Ltd. ⁽³⁾	Beijing, PRC	RMB2,625,000	3,468,630	3,405,304	11.78	11.88	11.78	11.88	Construction	
Qinghai Salt Lake Industry Co., Ltd. ⁽⁴⁾	Ge'ermu, PRC	RMB1,857,394	3,197,278	3,270,966	6.23	6.23	6.23	6.23	Chemical materials and products	
Xinjiang Chang Yuan Water Group Co., Ltd.	Urumqi, PRC	RMB800,000	2,556,920	—	51.00	—	51.00	—	Hydraulic generation	
Baiyin Nonferrous Group Co., Ltd. ⁽⁵⁾	Baiyin, PRC	RMB6,972,966	2,516,845	—	5.38	—	5.38	—	Mining	
Kailuan Energy Chemical Co., Ltd.	Tangshan, PRC	RMB1,587,800	2,286,850	—	22.24	—	22.24	—	Coal mining	
BAICBJEV ⁽⁶⁾	Beijing, PRC	RMB5,297,726	1,969,922	—	6.98	—	6.98	—	Manufacturing	
Prometeon Tyre Group S.r.l.	Milan, Italy	EUR100,000	1,879,721	—	38.00	—	38.00	—	Manufacturing	
Shenzhen Wanxin II Investment Partnership (Limited Partnership) ⁽²⁾	Shenzhen, PRC	RMB1,606,000	1,666,013	1,248,081	49.81	49.81	50.00	50.00	Investment holding	
Shandong Lutai Holding Group Co., Ltd.	Jining, PRC	RMB272,200	1,211,565	—	53.54	—	53.54	—	Coal mining	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

40. Interests in associates and joint ventures (Continued)

The above table lists the principal associates and joint ventures of the Group. To give details of other associates and joint ventures would, in the opinion of the management, result in particulars of excessive length. The directors consider the associates' and joint ventures' results and net assets are insignificant to the Group individually and therefore do not disclose them separately.

- (1) The Group has a 16.70% interest in Yancoal Australia Ltd. ("YAL"), thus the Group can exercise significant influence on the financial and operating policy decision of YAL by nominating a director to its board of directors. The Group accounts for this investment by equity method as an associate.
- (2) The Group holds part of interests in the partnership, and has joint control on the financial and operating policy decision of the partnership with other parties under the contractual agreement. The Group accounts for this investment by equity method as a joint venture.
- (3) During the year, the shares held by the Company of China Nuclear Engineering Co., Ltd. ("CNE") have decreased from 11.88% to 11.78%. The Company still has significant influence over CNE, as it is the second largest shareholder and can nominate a director to CNE's board of directors. The Group accounts for this investment by equity method as an associate.
- (4) The Company has a 6.23% interest in Qinghai Salt Lake Industry Co., Ltd. ("Qinghai Salt Lake"), thus the Company can exercise significant influence on the financial and operating policy decision of Qinghai Salt Lake by nominating a director to its board of directors. The Group accounts for this investment by equity method as an associate.
- (5) On February 15, 2017, Baiyin Nonferrous Group Co., Ltd. ("Baiyin Nonferrous") was listed in Shanghai Stock Exchange. The Company holds a 5.38% interest in Baiyin Nonferrous, and nominates one director to the Board, thus the Company can exercise significant influence on financial and operating policy decision of Baiyin Nonferrous. The Group accounts for this investment by equity method as an associate.
- (6) The Group has a 6.98% interest in BAICBJEV, thus the Group can exercise significant influence on the financial and operating policy decision of BAICBJEV by nominating a director to its board of directors. The Group accounts for this investment by equity method as an associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

41. Interests in unconsolidated structured entities

The Group is principally involved with structured entities through financial investments. These structured entities generally purchase assets through financing. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them. Whether control exists is determined by the manner described in note VI 39. The unconsolidated structured entities include private equity funds, trust products, asset management plans and mutual funds, etc. The interests held by the Group in the unconsolidated structured entities are set out as below.

As at December 31, 2017, the maximum exposure to loss and the book value of relevant investments of the Group rising from the interests held in directly invested structured entities that are sponsored by the Group or the third party financial institutions are set out as below:

	December 31, 2017		December 31, 2016	
	Carrying amount	Maximum exposure to loss	Carrying amount	Maximum exposure to loss
Financial assets at fair value through profit or loss	19,398,489	19,398,489	10,646,626	10,646,626
Financial assets classified as receivables	18,145,147	18,145,147	9,567,733	9,567,733
Available-for-sale financial assets	141,974,354	141,974,354	83,407,470	83,407,470
Interests in associates and joint ventures	<u>13,709,125</u>	<u>13,709,125</u>	<u>5,351,794</u>	<u>5,351,794</u>

In 2017, the Group obtained management fee, commission and performance fee amounting to RMB598.65 million (2016: RMB446.33 million) from unconsolidated structured entities sponsored by the Group, in which the Group held no interest as at the year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

42. Property and equipment

Group

	Buildings	Machinery and equipment	Electronic equipment and furniture	Motor vehicles	Construction in progress	Total
Cost						
As at January 1, 2017	10,778,063	505,071	752,203	304,806	184,525	12,524,668
Acquisition of subsidiaries	-	-	48	-	-	48
Additions	7,597	44,891	102,127	8,278	19,089	181,982
Disposal of subsidiaries	-	(144)	(2,799)	(4,972)	-	(7,915)
Disposals	(590)	(10,456)	(46,138)	(28,541)	(14,555)	(100,280)
Construction in progress transfer in/(out)	10,361	633	-	-	(15,714)	(4,720)
Transfer in/(Transfer out)	(60,434)	(2,282)	(254)	13	-	(62,957)
Exchange difference	(371,532)	(1,286)	(5,704)	(763)	(2,201)	(381,486)
As at December 31, 2017	10,363,465	536,427	799,483	278,821	171,144	12,149,340
Accumulated depreciation						
As at January 1, 2017	(1,214,684)	(192,810)	(537,643)	(224,277)	-	(2,169,414)
Acquisition of subsidiaries	-	-	(23)	-	-	(23)
Change for the year	(262,842)	(48,348)	(62,786)	(22,001)	-	(395,977)
Disposal of subsidiaries	-	221	2,173	3,867	-	6,261
Disposals	448	9,122	34,911	26,137	-	70,618
As at December 31, 2017	(1,477,078)	(231,815)	(563,368)	(216,274)	-	(2,488,535)
Allowance for impairment losses						
As at January 1, 2017	(1,613)	(16)	-	(346)	(484)	(2,459)
As at December 31, 2017	(1,613)	(16)	-	(346)	(484)	(2,459)
Net book value						
As at January 1, 2017	9,561,766	312,245	214,560	80,183	184,041	10,352,795
As at December 31, 2017	8,884,774	304,596	236,115	62,201	170,660	9,658,346
Including:						
Net book value of assets pledged as at December 31, 2017	-	-	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

42. Property and equipment (Continued)

Group (Continued)

	Buildings	Machinery and equipment	Electronic equipment and furniture	Motor vehicles	Construction in progress	Total
Cost						
As at January 1, 2016	3,592,710	262,204	667,321	334,856	916,169	5,773,260
Acquisition of subsidiaries	5,706,383	98,879	61,352	26,454	5,024	5,898,092
Additions	643,094	42,459	108,293	24,830	255,481	1,074,157
Disposal of subsidiaries	–	–	(192)	(659)	–	(851)
Disposals	(137,690)	(74,063)	(66,000)	(26,714)	(271)	(304,738)
Construction in progress transfer in/(transfer out)	710,653	228,983	25,410	10	(989,838)	(24,782)
Transfer in/(Transfer out)	262,913	–	–	–	–	262,913
Assets classified as held for sale	–	(53,391)	(43,981)	(53,971)	(2,040)	(153,383)
As at December 31, 2016	10,778,063	505,071	752,203	304,806	184,525	12,524,668
Accumulated depreciation						
As at January 1, 2016	(948,716)	(152,895)	(481,721)	(230,829)	–	(1,814,161)
Acquisition of subsidiaries	–	(74,627)	(45,191)	(19,623)	–	(139,441)
Change for the year	(248,637)	(48,897)	(70,656)	(33,227)	–	(401,417)
Disposal of subsidiaries	–	–	155	591	–	746
Disposals	4,385	28,021	45,187	15,812	–	93,405
(Transfer in)/Transfer out	(21,716)	–	–	–	–	(21,716)
Assets classified as held for sale	–	55,588	14,583	42,999	–	113,170
As at December 31, 2016	(1,214,684)	(192,810)	(537,643)	(224,277)	–	(2,169,414)
Allowance for impairment losses						
As at January 1, 2016	(22,640)	(17,277)	–	(464)	(484)	(40,865)
Disposals	21,027	17,261	–	118	–	38,406
As at December 31, 2016	(1,613)	(16)	–	(346)	(484)	(2,459)
Net book value						
As at January 1, 2016	2,621,354	92,032	185,600	103,563	915,685	3,918,234
As at December 31, 2016	9,561,766	312,245	214,560	80,183	184,041	10,352,795
Including:						
Net book value of assets pledged as at December 31, 2016	533,011	–	–	–	–	533,011

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

42. Property and equipment (Continued)

Group (Continued)

As at December 31, 2017 and 2016, the original cost of the fully depreciated property and equipment that were still in use amounted to RMB651.58 million and RMB331.33 million, respectively.

As at December 31, 2017 and 2016, the Group's property and equipment which the Group has not obtained certificate of land use right or certificate of property ownership amounted to RMB1,282.29 million and RMB1,351.84 million, respectively.

The net book values of buildings located on land with the following remaining lease terms are as follows:

	As at December 31	
	2017	2016
Net book value:		
– on long-term lease (over 50 years)	3,283,094	3,576,492
– on medium-term lease (10 to 50 years)	5,394,175	5,970,428
– on short-term lease (less than 10 years)	207,505	14,846
Total	8,884,774	9,561,766

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

42. Property and equipment (Continued)

Company

	Buildings	Machinery and equipment	Electronic equipment and furniture	Motor vehicles	Construction in progress	Total
Cost						
As at January 1, 2017	949,143	229,121	244,029	108,832	–	1,531,125
Additions	–	149	51,580	1,790	–	53,519
Transfer in/(out)	(7,013)	(2,282)	(254)	–	–	(9,549)
Disposals	–	(48)	(13,819)	(10,930)	–	(24,797)
	<u>942,130</u>	<u>226,940</u>	<u>281,536</u>	<u>99,692</u>	<u>–</u>	<u>1,550,298</u>
As at December 31, 2017						
Accumulated depreciation						
As at January 1, 2017	(20,680)	(507)	(167,405)	(81,926)	–	(270,518)
Change for the year	(30,811)	(21,907)	(27,355)	(8,813)	–	(88,886)
Disposals	–	43	12,720	9,269	–	22,032
	<u>(51,491)</u>	<u>(22,371)</u>	<u>(182,040)</u>	<u>(81,470)</u>	<u>–</u>	<u>(337,372)</u>
As at December 31, 2017						
Net book value						
As at January 1, 2017	<u>928,463</u>	<u>228,614</u>	<u>76,624</u>	<u>26,906</u>	<u>–</u>	<u>1,260,607</u>
As at December 31, 2017	<u>890,639</u>	<u>204,569</u>	<u>99,496</u>	<u>18,222</u>	<u>–</u>	<u>1,212,926</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

42. Property and equipment (Continued)

Company (Continued)

	Buildings	Machinery and equipment	Electronic equipment and furniture	Motor vehicles	Construction in progress	Total
Cost						
As at January 1, 2016	202,274	649	218,798	109,061	930,951	1,461,733
Additions	44,654	2	39,319	10,643	25,153	119,771
Construction in progress transfer in/(out)	702,215	228,479	25,410	–	(956,104)	–
Disposals	–	(9)	(39,498)	(10,872)	–	(50,379)
As at December 31, 2016	949,143	229,121	244,029	108,832	–	1,531,125
Accumulated depreciation						
As at January 1, 2016	(13,791)	(473)	(169,376)	(74,323)	–	(257,963)
Change for the year	(6,889)	(43)	(22,727)	(9,928)	–	(39,587)
Disposals	–	9	24,698	2,325	–	27,032
As at December 31, 2016	(20,680)	(507)	(167,405)	(81,926)	–	(270,518)
Net book value						
As at January 1, 2016	188,483	176	49,422	34,738	930,951	1,203,770
As at December 31, 2016	928,463	228,614	76,624	26,906	–	1,260,607

As at December 31, 2017 and 2016, the original cost of the fully depreciated property and equipment that were still in use amounted to RMB209.64 million and RMB197.11 million, respectively.

The net book values of buildings located on land with the following remaining lease terms are as follows:

	As at December 31	
	2017	2016
Net book value:		
– on medium-term lease (10 to 50 years)	890,639	928,463

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

43. Goodwill

Group

	As at December 31	
	2017	2016
Carrying amount		
At beginning of the year	24,644,818	1,513,734
Acquisitions of subsidiaries	–	21,799,290
Exchange differences	(1,521,502)	1,331,794
At end of the year	<u>23,123,316</u>	<u>24,644,818</u>
Allowance for impairment losses		
At beginning of the year	(1,120,799)	(1,120,799)
At end of the year	<u>(1,120,799)</u>	<u>(1,120,799)</u>
Net book value		
At beginning of the year	23,524,019	392,935
At end of the year	<u>22,002,517</u>	<u>23,524,019</u>

Goodwill acquired through the business combination of NCB which was accounted for the majority portion of the Group's goodwill as at 31 December, 2017, it is allocated to NCB cash-generating units for impairment testing. The recoverable amount of the NCB cash-generating units has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a 5-year period approved by senior management. The growth rate used to extrapolate the cash flows of NCB cash-generating units beyond the 5-year period does not exceed the long-term average growth rate of the banking industry. The pre-tax discount rates applied to the cash flow projections are 13.47% (Hong Kong) and 17.38% (Mainland China).

Assumptions were used in the value in use calculation of the NCB cash-generating units for December 31, 2017, including budgeted gross margins and discount rates. The values of the key assumptions on market development of banking industry and discount rates are consistent with external information sources.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

44. Other intangible assets

Group

	Trading rights	Computer software systems and others	Trade names	Core deposits intangible	Credit card customer relationships	Total
Cost						
As at January 1, 2017	23,926	456,056	618,051	3,772,124	8,050	4,878,207
Additions	-	118,043	-	-	-	118,043
Written off	-	(4,286)	-	-	-	(4,286)
Exchange differences	-	(22,061)	(40,489)	(247,115)	(527)	(310,192)
Transfer in	-	4,245	-	-	-	4,245
As at December 31, 2017	23,926	551,997	577,562	3,525,009	7,523	4,686,017
Accumulated amortization						
As at January 1, 2017	-	(256,633)	-	(110,020)	(470)	(367,123)
Change for the year	-	(67,460)	-	(182,385)	(778)	(250,623)
Written off	-	2,777	-	-	-	2,777
Exchange differences	-	480	-	13,342	57	13,879
As at December 31, 2017	-	(320,836)	-	(279,063)	(1,191)	(601,090)
Net book value						
As at January 1, 2017	23,926	199,423	618,051	3,662,104	7,580	4,511,084
As at December 31, 2017	23,926	231,161	577,562	3,245,946	6,332	4,084,927

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

44. Other intangible assets (Continued)

Group (Continued)

	Trading rights	Computer software systems and others	Trade names	Core deposits intangible	Credit card customer relationships	Total
Cost						
As at January 1, 2016	23,744	402,125	–	–	–	425,869
Increase arising on acquisition of subsidiaries	–	–	582,675	3,556,215	7,589	4,146,479
Additions	–	157,868	–	–	–	157,868
Written off	–	(4,499)	–	–	–	(4,499)
Exchange differences	182	317	35,376	215,909	461	252,245
Assets classified as held for sale	–	(99,755)	–	–	–	(99,755)
As at December 31, 2016	23,926	456,056	618,051	3,772,124	8,050	4,878,207
Accumulated amortization						
As at January 1, 2016	–	(235,461)	–	–	–	(235,461)
Change for the year	–	(76,531)	–	(105,425)	(450)	(182,406)
Written off	–	4,210	–	–	–	4,210
Exchange differences	–	(358)	–	(4,595)	(20)	(4,973)
Assets classified as held for sale	–	51,507	–	–	–	51,507
As at December 31, 2016	–	(256,633)	–	(110,020)	(470)	(367,123)
Net book value						
As at January 1, 2016	23,744	166,664	–	–	–	190,408
As at December 31, 2016	23,926	199,423	618,051	3,662,104	7,580	4,511,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**44. Other intangible assets (Continued)****Company**

	Computer software systems and others	Total
Cost		
As at January 1, 2017	57,474	57,474
Additions	9,157	9,157
As at December 31, 2017	66,631	66,631
Accumulated amortization		
As at January 1, 2017	(43,586)	(43,586)
Change for the year	(7,488)	(7,488)
As at December 31, 2017	(51,074)	(51,074)
Net book value		
As at January 1, 2017	13,888	13,888
As at December 31, 2017	15,557	15,557

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**44. Other intangible assets (Continued)****Company (Continued)**

	Computer software systems and others	Total
Cost		
As at January 1, 2016	46,922	46,922
Additions	<u>10,552</u>	<u>10,552</u>
As at December 31, 2016	<u>57,474</u>	<u>57,474</u>
Accumulated amortization		
As at January 1, 2016	(35,606)	(35,606)
Change for the year	<u>(7,980)</u>	<u>(7,980)</u>
As at December 31, 2016	<u>(43,586)</u>	<u>(43,586)</u>
Net book value		
As at January 1, 2016	<u>11,316</u>	<u>11,316</u>
As at December 31, 2016	<u>13,888</u>	<u>13,888</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

45. Deferred taxation

For the purpose of presentation of the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances:

Group

	As at December 31	
	2017	2016
Deferred tax assets	5,150,810	5,877,907
Deferred tax liabilities	<u>(2,104,573)</u>	<u>(2,272,446)</u>
Deferred taxation	<u><u>3,046,237</u></u>	<u><u>3,605,461</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

45. Deferred taxation (Continued)

Group (Continued)

(1) The movements of deferred tax assets and deferred tax liabilities are set out below:

	Allowance for impairment losses	Unrealized financing income	Withholding land appreciation tax	Advance from sales of real estate	Asset revaluation	Fair value adjustment in business combination	Accrued but not paid staff costs	Interest capitalized on properties held for sale	Tax losses	Provisions	Fair value of financial assets at FVTPL	Available-for-sale financial assets	Temporary differences related to the cost of associates and joint ventures ⁽ⁱ⁾	Temporary differences associated with subsidiary held for sale	Others	Total
January 1, 2017	4,550,364	-	70,534	383,286	(1,052,150)	(718,690)	681,020	480,316	23,819	117,979	117,404	(290,236)	(1,000,070)	107,533	134,352	3,605,461
Credit/(charge) to profit or loss	1,575,744	-	40,727	65,941	45,773	36,633	386,306	19,913	7,812	10,158	120,383	-	(2,904,008)	(107,533)	(190,753)	(892,904)
Charge to other comprehensive income/(expense)	55,818	-	-	-	-	-	-	-	-	-	-	173,798	(5,101)	-	13,979	238,494
Others	(13,575)	-	-	-	4,032	3,153	25,416	-	-	-	8,891	23,717	-	-	43,552	95,186
December 31, 2017	6,168,351	-	111,261	449,227	(1,002,345)	(678,904)	1,092,742	500,229	31,631	128,137	246,678	(92,721)	(3,909,179)	-	1,130	3,046,237
January 1, 2016	3,667,251	13,800	22,253	161,610	(175,260)	-	555,738	372,446	72,234	116,713	51,885	(678,874)	-	-	(36,805)	4,142,991
Credit/(charge) to profit or loss	810,000	(13,800)	48,281	221,676	12,443	17,469	125,120	107,870	(48,415)	1,266	68,553	-	(1,000,070)	107,533	(33,813)	424,113
Charge to other comprehensive income/(expense)	64	-	-	-	-	-	-	-	-	-	-	378,627	-	-	(14,656)	364,035
Acquisitions of subsidiaries	68,880	-	-	-	(852,296)	(694,741)	-	-	-	-	-	-	-	-	148,131	(1,330,026)
Others	4,169	-	-	-	(37,037)	(41,418)	162	-	-	-	(3,034)	10,011	-	-	71,495	4,348
December 31, 2016	4,550,364	-	70,534	383,286	(1,052,150)	(718,690)	681,020	480,316	23,819	117,979	117,404	(290,236)	(1,000,070)	107,533	134,352	3,605,461

(i) The temporary differences related to the costs of associates and joint ventures are temporary differences arising from the difference between the book values and the tax bases for the associates and joint ventures not holding for long-term by the Group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

45. Deferred taxation (Continued)

Group (Continued)

Tax losses and temporary differences that are not recognized as deferred income tax assets are as follows:

	As at December 31	
	2017	2016
Unused tax losses	6,257,442	4,486,213
Deductible temporary differences	<u>5,606,370</u>	<u>3,229,669</u>
	<u>11,863,812</u>	<u>7,715,882</u>

As at December 31, 2017, the above unused tax losses would expire from 2018 to 2022 (December 31, 2016: from 2017 to 2021).

Company

	As at December 31	
	2017	2016
Deferred tax assets	1,499,498	2,752,404
Deferred tax liabilities	<u>—</u>	<u>—</u>
Deferred taxation	<u>1,499,498</u>	<u>2,752,404</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

45. Deferred taxation (Continued)

Group (Continued)

(1) The movements of deferred tax assets and deferred tax liabilities are set out below:

	Allowance for impairment losses	Unrealized financing income	Accrued but not paid staff costs	Provisions	Changes in fair value of financial assets at FVTPL	Changes in fair value of available- for-sale financial assets	Temporary differences related the cost of associates and joint ventures ⁽ⁱ⁾	Others	Total
January 1, 2017	3,056,997	–	384,445	106,715	228,106	(185,652)	(838,207)	–	2,752,404
Credit/(charge) to profit or loss	1,440,266	–	311,402	7,500	36,501	–	(3,049,409)	(9,328)	(1,263,068)
Charge to other comprehensive income/(expense)	55,438	–	–	–	–	(40,175)	(5,101)	–	10,162
December 31, 2017	<u>4,552,701</u>	<u>–</u>	<u>695,847</u>	<u>114,215</u>	<u>264,607</u>	<u>(225,827)</u>	<u>(3,892,717)</u>	<u>(9,328)</u>	<u>1,499,498</u>
January 1, 2016	2,726,674	13,800	219,719	97,889	254,711	(366,070)	–	–	2,946,723
Credit/(charge) to profit or loss	330,323	(13,800)	164,726	8,826	(26,605)	–	(838,207)	–	(374,737)
Charge to other comprehensive income	–	–	–	–	–	180,418	–	–	180,418
December 31, 2016	<u>3,056,997</u>	<u>–</u>	<u>384,445</u>	<u>106,715</u>	<u>228,106</u>	<u>(185,652)</u>	<u>(838,207)</u>	<u>–</u>	<u>2,752,404</u>

- (i) The temporary differences related to the costs of associates and joint ventures are temporary differences arising from the difference between the book values and the tax bases for the associates and joint ventures not holding for long-term by the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

46. Other assets

Group

	As at December 31	
	2017	2016
Other receivables ⁽¹⁾	9,471,816	7,886,922
Prepayments	3,712,671	867,744
Interest receivable	4,307,800	3,951,600
Assets in satisfaction of debts ⁽²⁾	3,457,524	2,686,779
Statutory deposits ⁽³⁾	2,026,075	1,126,075
Dividends receivable	1,284,122	2,182,429
Prepaid taxes	1,077,288	696,553
Land use rights ⁽⁴⁾	78,515	80,729
Long-term prepaid expenses	264,275	256,380
Notes receivable	499,715	222,100
Precious metals	197,911	206,599
Assets with continuing involvement (Note VI.72)	2,573,671	2,573,671
Others	1,041,993	910,479
Total	<u>29,993,376</u>	<u>23,648,060</u>

Company

	As at December 31	
	2017	2016
Other receivables ⁽¹⁾	575,494	1,335,031
Prepayments	2,519,625	195,122
Interest receivable	493,354	366,303
Assets in satisfaction of debts ⁽²⁾	3,223,288	2,627,458
Dividends receivable	1,214,171	2,187,253
Land use rights ⁽⁴⁾	43,157	44,458
Long-term prepaid expenses	21,832	18,055
Notes receivable	404,665	202,300
Assets with continuing involvement (Note VI.72)	2,573,671	2,573,671
Others	874	197
Total	<u>11,070,131</u>	<u>9,549,848</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

46. Other assets (Continued)

(1) Other receivables

Group

	As at December 31	
	2017	2016
Other receivables	10,538,379	8,710,492
Less: Allowance for impairment losses	1,066,563	823,570
Net book value	<u>9,471,816</u>	<u>7,886,922</u>

Company

	As at December 31	
	2017	2016
Other receivables	864,116	1,395,185
Less: Allowance for impairment losses	288,622	60,154
Net book value	<u>575,494</u>	<u>1,335,031</u>

Other receivables mainly include guarantee deposits and accounts receivable relating to assets disposal within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

46. Other assets (Continued)

(2) Assets in satisfaction of debts

Assets in satisfaction of debts include those obtained from the Group's debtors to settle their defaulted debts and those acquired directly from financial institutions, which came into their possession through similar arrangements.

Group

	As at December 31	
	2017	2016
Buildings	3,146,363	2,478,244
Land use rights	187,908	189,560
Others	261,572	120,943
Subtotal	3,595,843	2,788,747
Less: Allowance for impairment losses	138,319	101,968
Net book value	<u>3,457,524</u>	<u>2,686,779</u>

Company

	As at December 31	
	2017	2016
Buildings	3,039,642	2,478,244
Land use rights	187,908	189,560
Others	120,260	58,157
Subtotal	3,347,810	2,725,961
Less: Allowance for impairment losses	124,522	98,503
Net book value	<u>3,223,288</u>	<u>2,627,458</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

46. Other assets (Continued)

(3) Statutory deposits

In accordance with the Insurance Law of the PRC and the Interim Measures for the Administration of the Capital Guarantee Funds of Insurance Companies (Baojianfa [2007] No.66) issued by the China Insurance Regulatory Commission, the Group's subsidiaries engaging in insurance business shall deposit at least 20% of their registered capital as statutory deposits in designated banks. Statutory deposits outlined above are only allowed to be used in paying off debts during the liquidation by insurance companies.

(4) Land use rights

The carrying amounts of land use rights analyzed by remaining lease term are as follows:

Group

	As at December 31	
	2017	2016
The carrying amounts:		
– on medium-term lease (10 to 50 years)	<u>78,515</u>	<u>80,729</u>

Company

	As at December 31	
	2017	2016
The carrying amounts:		
– on medium-term lease (10 to 50 years)	<u>43,157</u>	<u>44,458</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

47. Borrowings from central bank

Group and Company

	As at December 31	
	2017	2016
Borrowings from central bank	<u>986,058</u>	<u>986,058</u>

The borrowings from central bank were used to finance the purchase of distressed assets from commercial banks and bear interest rate at 2.25% per annum. As at December 31, 2017, the loans principal has been repaid in full, and the outstanding balance represents interest payable to central bank.

48. Accounts payable to brokerage clients

Group

	As at December 31	
	2017	2016
Personal customers	10,405,850	13,236,319
Corporate customers	<u>1,987,963</u>	<u>3,035,776</u>
Total	<u>12,393,813</u>	<u>16,272,095</u>

Accounts payable to brokerage clients mainly include money held on behalf of clients at banks and at clearing houses by the Group, and the portion relating to securities brokerage clients amounting to RMB9,528.23 million at December 31, 2017 (December 31, 2016: RMB13,475.99 million) is interest-bearing at the prevailing market interest rate.

The majority of the accounts payable balances are repayable on demand except where certain balances represent margin deposits and cash collateral received from clients for their trading activities under normal course of business. Only the excess amounts over the required margin deposits and cash collateral stipulated are repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

48. Accounts payable to brokerage clients (Continued)

Group (Continued)

No ageing analysis is disclosed as in the opinion of the directors of the Company, as the ageing analysis does not give additional value to the readers of this report in view of the nature of this business.

As at December 31, 2017 and 2016, included in the Group's accounts payable to brokerage clients were cash collateral of approximately RMB1,251.96 million and RMB1,335.80 million received from clients for margin financing and securities lending arrangement.

The Company had no accounts payable to brokerage clients at the end of 2017 and 2016.

49. Financial liabilities at fair value through profit or loss

Group

	As at December 31	
	2017	2016
Derivative financial liabilities (Note VI27.(1))	386,647	853,277
Short positions in exchange fund bills and notes	3,632,482	2,883,414
Forward payment plan	2,775,000	2,775,000
Total	<u>6,794,129</u>	<u>6,511,691</u>

Company

	As at December 31	
	2017	2016
Forward payment plan	2,775,000	2,775,000
Income guarantee and repurchase commitment	521,750	469,454
Total	<u>3,296,750</u>	<u>3,244,454</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

50. Financial assets sold under repurchase agreements

Group

	As at December 31	
	2017	2016
By collateral type:		
Debt securities	5,630,267	7,072,213
Loans to margin clients	1,000,000	800,000
Total	<u>6,630,267</u>	<u>7,872,213</u>

The Company had no financial assets sold under repurchase agreements as at December 31, 2017 and 2016.

51. Placements from banks and financial institutions

Group

	As at December 31	
	2017	2016
Placements from banks	14,888,282	18,482,558
Placements from financial institutions	1,543,269	5,098,623
Total	<u>16,431,551</u>	<u>23,581,181</u>

Company

	As at December 31	
	2017	2016
Placement from banks	—	1,900,000
Total	<u>—</u>	<u>1,900,000</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

52. Borrowings

Group

	As at December 31	
	2017	2016
Banks and other financial institutions borrowings		
Unsecured loans	546,982,562	419,988,483
Loans secured by properties	8,296,700	10,935,181
Other secured loans	25,072,808	19,591,099
Total	580,352,070	450,514,763

Loans secured by properties were collateralized by investment properties, properties held for sale at an aggregate carrying amount of RMB14,398 million as at December 31, 2017 (December 31, 2016: RMB15,619 million).

Other secured loans were collateralized by deposits with banks and financial institutions, interests in associates and joint ventures, available-for-sale financial assets, and finance lease receivables at an aggregate carrying amount of RMB6,350 million as at December 31, 2017 (December 31, 2016: RMB6,348 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**52. Borrowings (Continued)****Group (Continued)**

	As at December 31	
	2017	2016
Carrying amount repayable*:		
Within one year	314,099,061	287,886,868
More than one year, but not exceeding two years	129,243,893	92,278,098
More than two years, but not exceeding five years	99,644,798	33,858,511
More than five years	521,835	536,706
Subtotal	543,509,587	414,560,183
Carrying amount of borrowings that contain a repayment on demand clause repayable*:		
Within one year	4,672,597	89,528
More than one year, but not exceeding two years	—	—
More than two years, but not exceeding five years	14,220,207	13,136,482
More than five years	17,949,679	22,728,570
Subtotal	36,842,483	35,954,580
Total	580,352,070	450,514,763

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

52. Borrowings (Continued)

Group (Continued)

The exposure of the Group's fixed-rate borrowings by remaining contractual maturity period is as follows:

	As at December 31	
	2017	2016
Fixed-rate borrowings:		
Within one year	302,258,151	276,418,584
More than one year, but not exceeding two years	128,320,726	68,314,366
More than two years, but not exceeding five years	111,194,599	45,546,611
More than five years	18,471,514	22,728,570
Total	<u>560,244,990</u>	<u>413,008,131</u>

In addition, the Group has variable-rate borrowings which carry interest based at borrowing or deposit benchmark interest rate of PBOC, Shanghai Inter-bank Offered Rate ("SHIBOR"), Hong Kong Inter-bank Offered Rate ("HIBOR"), London Inter-bank Offered Rate ("LIBOR") or prime rate.

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Group's borrowings are as follows:

	As at December 31	
	2017	2016
Effective interest rate		
Fixed-rate borrowings	1.22% - 8.00%	1.67% - 9.00%
Variable-rate borrowings	2.23% - 6.00%	1.35% - 8.83%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

52. Borrowings (Continued)

Company

	As at December 31	
	2017	2016
Bank borrowings		
Unsecured loans	<u>468,799,900</u>	<u>349,563,000</u>
Carrying amount repayable*:		
Within one year	<u>266,800,000</u>	246,063,000
More than one year, but not exceeding two years	<u>118,699,900</u>	81,500,000
More than two years, but not exceeding five years	<u>83,300,000</u>	<u>22,000,000</u>
Total	<u>468,799,900</u>	<u>349,563,000</u>

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The exposure of the Company's fixed-rate borrowings by remaining contractual maturity period is as follows:

	As at December 31	
	2017	2016
Fixed-rate borrowings:		
Within one year	<u>245,800,000</u>	244,063,000
More than one year, but not exceeding two years	<u>118,699,900</u>	60,500,000
More than two years, but not exceeding five years	<u>83,300,000</u>	<u>22,000,000</u>
	<u>447,799,900</u>	<u>326,563,000</u>

In addition, the Company has variable-rate borrowings which carry interest based at borrowing or deposit benchmark interest rate of PBOC or SHIBOR.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

52. Borrowings (Continued)

Company (Continued)

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Company's borrowings are as follows:

	As at December 31	
	2017	2016
Effective interest rate		
Fixed-rate borrowings	3.60% – 7.06%	3.30% – 7.10%
Variable-rate borrowings	4.75% – 4.85%	4.75% – 4.85%

53. Due to customers

Group

	As at December 31	
	2017	2016
Demand deposits		
Corporate	48,909,270	39,055,785
Personal	38,896,599	38,973,172
Time deposits		
Corporate	78,804,610	72,207,707
Personal	49,522,828	44,987,910
Guarantee deposits	10,087,479	9,404,465
Total	<u>226,220,786</u>	<u>204,629,039</u>

The Company had no due to customers at the end of 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

54. Deposits from banks and financial institutions

Group

	As at December 31	
	2017	2016
Banks	6,234,821	10,775,715
Other financial institutions	13,024,445	2,529,077
Total	<u>19,259,266</u>	<u>13,304,792</u>

The Company had no deposits from banks and financial institutions at the end of 2017 and 2016.

55. Accounts payable

Group

	As at December 31	
	2017	2016
Accounts payable associated with real estate business ⁽¹⁾	2,446,994	2,651,360
Asset purchase payable	199,149	2,681
Reinsurance premium payable	10,401	6,470
Others	564,395	393,349
Total	<u>3,220,939</u>	<u>3,053,860</u>

(1) Accounts payable associated with real estate business mainly comprised construction costs payable to contractors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

55. Accounts payable (Continued)

Company

	As at December 31	
	2017	2016
Asset purchase payable	<u>198,820</u>	<u>1,701</u>
Total	<u><u>198,820</u></u>	<u><u>1,701</u></u>

No ageing analysis is disclosed as in the opinion of the directors of the Company, as the ageing analysis on these items does not give additional value to the readers of this report in view of the nature of these items.

56. Investment contract liabilities for policyholders

Group

	Year ended December 31	
	2017	2016
At beginning of the year	27,193,179	20,057,746
Deposits received	2,041,977	14,681,693
Deposits withdrawn	(9,273,564)	(7,545,561)
Others	<u>(223)</u>	<u>(699)</u>
At end of the year	<u><u>19,961,369</u></u>	<u><u>27,193,179</u></u>

The Company had no investment contract liabilities for policyholders at the end of 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

57. Tax payable

Group

	As at December 31	
	2017	2016
PRC Enterprise income tax	2,182,358	1,808,377
PRC Land appreciation tax	975,459	384,933
Hong Kong profits tax	239,685	197,902
Total	<u>3,397,502</u>	<u>2,391,212</u>

Company

	As at December 31	
	2017	2016
PRC Enterprise income tax	<u>660,863</u>	<u>388,879</u>
Total	<u>660,863</u>	<u>388,879</u>

58. Insurance contract liabilities

Group

	January 1, 2017	Increase	Decrease	December 31, 2017
Short-term insurance contracts				
– Unearned premium reserves	86,124	162,243	(147,182)	101,185
– Outstanding claim reserves	99,891	92,887	(107,940)	84,838
Long-term life insurance contracts	<u>31,000,012</u>	<u>18,157,216</u>	<u>(9,777,087)</u>	<u>39,380,141</u>
Total	<u>31,186,027</u>	<u>18,412,346</u>	<u>(10,032,209)</u>	<u>39,566,164</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

58. Insurance contract liabilities (Continued)

Group (Continued)

	January 1, 2016	Increase	Decrease	December 31, 2016
Short-term insurance contracts				
– Unearned premium reserves	1,205,686	1,316,644	(2,436,206)	86,124
– Outstanding claim reserves	1,018,250	2,005,412	(2,923,771)	99,891
Long-term life insurance contracts	26,051,238	13,089,286	(8,140,512)	31,000,012
Total	<u>28,275,174</u>	<u>16,411,342</u>	<u>(13,500,489)</u>	<u>31,186,027</u>

The remaining maturity analysis of the Group's insurance contract liabilities is as follows:

	As at December 31, 2017			As at December 31, 2016		
	Within 1 year	Over 1 year	Total	Within 1 year	Over 1 year	Total
Short-term insurance contracts						
– Unearned premium reserves	90,673	10,512	101,185	74,684	11,440	86,124
– Outstanding claim reserves	83,071	1,767	84,838	99,891	–	99,891
Long-term life insurance contracts	9,354	39,370,787	39,380,141	8,526	30,991,486	31,000,012
Total	<u>183,098</u>	<u>39,383,066</u>	<u>39,566,164</u>	<u>183,101</u>	<u>31,002,926</u>	<u>31,186,027</u>

The Company had no insurance contract liabilities at the end of 2017 and 2016.

59. Assets and liabilities classified as held for sale

Group and Company

As at December 31, 2016, the company had signed a sale agreement of shares with Shenzhen Investment Holding Co., Ltd. in relation to the proposed sale of 41% of the issued shares of Cinda Property and Casualty Insurance Co., Ltd. The Group classified all the assets and liabilities of Cinda Property and Casualty Insurance Co., Ltd. as assets and liabilities held for sale. The carrying amounts of assets and liabilities were RMB6,018.89 million and RMB3,628.61 million accordingly. The Company classified all the investment of Cinda Property and Casualty Insurance Co., Ltd. valued RMB1,878.13 million, as assets held for sale. This transaction was completed in April 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

60. Bonds issued

Group

Bond Name	Note	Face Value	Currency	Issue Date	Maturity Date	Bond Rate	As at December 31	
							2017	2016
2012 Financial bonds (5-year)	(1)	5,000,000	RMB	2012/11	2017/11	4.65%	–	5,034,288
2014 Financial bonds (3-year)	(1)	10,000,000	RMB	2014/5	2017/5	5.20%	–	10,298,140
2014 Financial bonds (5-year)	(1)	10,000,000	RMB	2014/5	2019/5	5.35%	10,293,011	10,282,844
2015 Financial bonds (3-year)	(1)	10,000,000	RMB	2015/5	2018/5	4.10%	10,243,183	10,229,840
2015 Financial bonds (5-year)	(1)	10,000,000	RMB	2015/5	2020/5	4.30%	10,240,103	10,232,672
2015-II Financial bonds (3-year)	(1)	2,000,000	RMB	2015/9	2018/9	3.50%	2,017,914	2,017,205
2015-II Financial bonds (5-year)	(1)	4,000,000	RMB	2015/9	2020/9	3.75%	4,037,162	4,036,427
2015-II Financial bonds (10-year)	(1)	10,000,000	RMB	2015/9	2025/9	4.60%	10,112,435	10,111,802
2016 Tier-II Capital bonds (10-year)	(2)	10,000,000	RMB	2016/6	2026/6	3.70%	10,176,138	10,170,374
2017 Financial bonds (3-year)	(1)	2,000,000	RMB	2017/4	2020/4	4.30%	2,059,992	–
2017 Financial bonds (5-year)	(1)	4,000,000	RMB	2017/4	2022/4	4.40%	4,122,430	–
2017 Financial bonds (10-year)	(1)	24,000,000	RMB	2017/4	2027/4	4.75%	24,791,952	–
2017 Cinda Ningyuan-I ABS	(18)	4,530,943	RMB	2017/11	2018/3- 2019/3	4.80%- 5.15%	4,468,427	–
2015 Capital supplement bonds	(3)	3,000,000	RMB	2015/12	2025/12	4.00%	3,000,995	3,001,018
2015-I Subordinate bonds	(4)	3,000,000	RMB	2015/2	2018/2	5.90%	3,156,148	3,156,633
2015-II Subordinate bonds	(4)	3,000,000	RMB	2015/4	2018/4	6.00%	3,124,274	3,124,767
2017-I Subordinate bonds	(4)	3,000,000	RMB	2017/2	2020/2	4.99%	3,127,963	–
2017-II Subordinate bonds	(4)	3,000,000	RMB	2017/3	2020/3	5.12%	3,122,038	–
2017-I Corporation bonds (3-year)	(19)	2,500,000	RMB	2017/7	2020/7	5.05%	2,554,997	–
Beneficiary certificates-II	(4)	1,000,000	RMB	2015/6	2017/6	6.50%	–	1,100,389
Beneficiary certificates-IV	(4)	400,000	RMB	2016/11	2017/3	3.40%	–	401,639
Beneficiary certificates-V	(4)	500,000	RMB	2016/12	2017/3	3.75%	–	501,541
Beneficiary certificates-VI	(4)	1,000,000	RMB	2016/12	2017/5	4.32%	–	1,002,722
Beneficiary certificates-VII	(4)	1,000,000	RMB	2017/5	2019/5	5.50%	1,033,151	–
Beneficiary certificates-VIII	(4)	500,000	RMB	2017/6	2019/5	5.48%	500,826	–
Beneficiary certificates-IX	(4)	380,000	RMB	2017/6	2019/6	5.35%	380,613	–
Beneficiary certificates-X	(4)	120,000	RMB	2017/6	2019/6	5.35%	120,193	–
2015 Corporation bonds	(5)	3,000,000	RMB	2015/12	2023/12	3.80%	2,991,049	3,046,125
2016-I Corporation bonds (8-year)	(5)	2,000,000	RMB	2016/1	2024/1	3.70%	2,061,818	2,023,555
2016-I Corporation bonds (5-year)	(6)	3,000,000	RMB	2016/5	2021/5	4.70%	3,080,792	3,008,699
2016-II Corporation bonds (5-year)	(6)	5,000,000	RMB	2016/8	2021/8	4.00%	5,061,178	5,059,490

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

60. Bonds issued (Continued)

Group (Continued)

Bond Name	Note	Face Value	Currency	Issue Date	Maturity Date	Bond Rate	As at December 31	
							2017	2016
2015-I Mid-term notes	(7)	1,500,000	RMB	2015/6	2020/6	5.80%	1,558,412	1,549,726
2015-II Mid-term notes	(7)	1,400,000	RMB	2015/8	2020/8	5.50%	1,409,199	1,426,375
2015-III Mid-term notes	(7)	100,000	RMB	2015/12	2020/12	5.50%	100,256	100,181
2016-I Corporation bonds (5-year)	(8)	2,500,000	RMB	2016/3	2021/2	3.80%	2,573,407	2,575,570
2016-II Corporation bonds (5-year)	(8)	500,000	RMB	2016/3	2021/3	3.50%	512,424	513,147
2016-I Corporation bonds (3-year)	(9)	3,000,000	RMB	2016/5	2019/5	5.56%	3,103,229	3,098,113
2016-II Corporation bonds (3-year)	(9)	3,000,000	RMB	2016/8	2019/8	4.50%	3,043,716	3,047,076
2016-I Financial bonds (3-year)	(10)	2,000,000	RMB	2016/6	2019/6	3.81%	2,041,854	2,040,802
2016-II Financial bonds (3-year)	(10)	3,000,000	RMB	2016/8	2019/8	3.15%	3,033,940	3,033,801
HKD bonds	(11)	20,000	HKD	2013/9	2018/9	4.00%	17,386	18,818
HKD bonds	(11)	4,000	HKD	2013/10	2018/10	4.00%	3,477	3,751
HKD bonds	(11)	10,000	HKD	2013/12	2018/12	4.00%	8,693	9,332
HKD bonds	(11)	20,000	HKD	2014/7	2019/7	4.00%	17,386	18,934
HKD bonds	(11)	12,000	HKD	2014/9	2019/9	4.00%	10,432	11,295
HKD bonds	(11)	10,000	HKD	2014/10	2019/9	4.00%	8,693	9,366
HKD bonds	(11)	10,000	HKD	2016/3	2021/3	4.00%	8,693	9,228
USD Guaranteed senior notes	(12)	1,000,000	USD	2014/5	2019/5	4.00%	6,525,229	6,917,650
USD Guaranteed senior notes	(12)	500,000	USD	2014/5	2024/5	5.625%	3,252,003	3,455,465
USD Guaranteed senior notes	(13)	230,000	USD	2014/12	2029/12	5.20%	1,492,269	1,584,999
USD Guaranteed senior notes	(13)	90,000	USD	2015/2	2029/12	5.20%	593,020	628,413
USD Guaranteed senior notes	(13)	1,300,000	USD	2015/4	2020/4	3.125%	8,533,369	9,053,838
USD Guaranteed senior notes	(13)	1,700,000	USD	2015/4	2025/4	4.25%	11,175,005	11,857,604
USD Guaranteed senior notes	(13)	100,000	USD	2015/2	2030/2	5.20%	661,525	702,083
USD Guaranteed senior notes	(13)	80,000	USD	2015/3	2022/3	4.45%	527,913	560,068
USD Guaranteed senior notes	(13)	300,000	USD	2017/3	2020/3	3.00%	1,968,144	–
USD Guaranteed senior notes	(13)	1,300,000	USD	2017/3	2022/3	3.65%	8,548,978	–
USD Guaranteed senior notes	(13)	700,000	USD	2017/3	2024/3	4.10%	4,606,429	–
USD Guaranteed senior notes	(13)	700,000	USD	2017/3	2027/3	4.40%	4,602,851	–
USD Guaranteed senior notes	(12)	545,000	USD	2017/12	2037/12	4.75%	3,551,575	–
2016 Corporation bonds (5-year)	(14)	600,000	RMB	2016/4	2021/4	4.60%	617,828	617,558
2016 Corporation bonds (4-year)	(15)	800,000	RMB	2016/4	2020/4	4.98%	826,985	826,623
2016-I Financial bonds	(16)	500,000	RMB	2016/12	2021/12	4.67%	500,767	500,768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

60. Bonds issued (Continued)

Group (Continued)

Bond Name	Note	Face Value	Currency	Issue Date	Maturity Date	Bond Rate	As at December 31	
							2017	2016
2017-I Financial bonds	(16)	2,500,000	RMB	2017/3	2022/3	5.03%	2,601,709	–
16 NCB China CD001	(17)	500,000	RMB	2016/11	2017/11	3.25%	–	486,806
17 NCB China CD004	(17)	100,000	RMB	2017/9	2018/9	4.55%	97,067	–
17 NCB China CD006	(17)	500,000	RMB	2017/9	2018/3	5.65%	495,632	–
17 NCB China CD007	(17)	2,000,000	RMB	2017/12	2018/3	5.45%	1,974,367	–
Total							<u>206,482,644</u>	<u>152,497,560</u>

Company

Bond Name	Note	Face Value	Currency	Issue Date	Maturity Date	Bond Rate	As at December 31	
							2017	2016
2012 Financial bonds (5-year)	(1)	5,000,000	RMB	2012/11	2017/11	4.65%	–	5,031,321
2014 Financial bonds (3-year)	(1)	10,000,000	RMB	2014/5	2017/5	5.20%	–	10,294,916
2014 Financial bonds (5-year)	(1)	10,000,000	RMB	2014/5	2019/5	5.35%	10,293,010	10,279,614
2015 Financial bonds (3-year)	(1)	10,000,000	RMB	2015/5	2018/5	4.10%	10,239,488	10,217,189
2015 Financial bonds (5-year)	(1)	10,000,000	RMB	2015/5	2020/5	4.30%	10,226,908	10,214,339
2015-II Financial bonds (3-year)	(1)	2,000,000	RMB	2015/9	2018/9	3.50%	2,015,150	2,010,748
2015-II Financial bonds (5-year)	(1)	4,000,000	RMB	2015/9	2020/9	3.75%	4,024,683	4,019,685
2015-II Financial bonds (10-year)	(1)	10,000,000	RMB	2015/9	2025/9	4.60%	10,067,940	10,062,618
2016 Tier-II Capital bonds (10-year)	(2)	10,000,000	RMB	2016/6	2026/6	3.70%	10,151,182	10,138,777
2017 Financial bonds (3-year)	(1)	2,000,000	RMB	2017/4	2020/4	4.30%	2,051,533	–
2017 Financial bonds (5-year)	(1)	4,000,000	RMB	2017/4	2022/4	4.40%	4,103,369	–
2017 Financial bonds (10-year)	(1)	24,000,000	RMB	2017/4	2027/4	4.75%	24,667,904	–
2017 Cinda Ningyuan-I ABS	(18)	4,530,943	RMB	2017/11	2018/3- 2019/3	4.80% -5.15%	4,468,427	–
Total							<u>92,309,594</u>	<u>72,269,207</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

60. Bonds issued (Continued)

- (1) The financial bonds issued by the Company have fixed coupon rates, payable annually.
- (2) The tier-II capital bonds issued by the Company have a fixed coupon rate, payable annually, conditionally redeemable on the last day of the fifth year. The Company has the right to early redeem the bonds at face value in full subject to the approval of the China Banking Regulatory Commission.
- (3) The capital supplement bonds issued by Happy Life Insurance Co., Ltd., a subsidiary of the Company, have a fixed coupon rate, payable annually. The subsidiary has an option to redeem the bonds in December 2020. If the subsidiary does not exercise this option, the coupon rate of the bonds will be increased to 5% per annum from January 2021 onwards.
- (4) The subordinate bonds and beneficiary certificates issued by Cinda Securities Co., Ltd., a subsidiary of the Company, have fixed coupon rates, payable annually.
- (5) The corporation bonds issued by Cinda Investment Co., Ltd. ("Cinda Investment"), a subsidiary of the Company, have fixed coupon rates, payable annually. The subsidiary shall be entitled to adjust the coupon rate, and the investors shall be entitled to sell back the relevant corporate bonds to the subsidiary, at the end of the fifth year.
- (6) The corporation bonds issued by Cinda Investment, a subsidiary of the Company, have fixed coupon rates, payable annually. The subsidiary shall be entitled to adjust the coupon rates, and the investors shall be entitled to sell back the relevant corporate bonds to the subsidiary, at the end of the third year.
- (7) The mid-term notes issued by Cinda Real Estate Co., Ltd., a subsidiary of the Cinda Investment, have fixed coupon rates, payable annually.
- (8) The corporation bonds issued by Cinda Real Estate Co., Ltd., a subsidiary of the Cinda Investment, have fixed coupon rates, payable annually. The subsidiary shall be entitled to adjust the coupon rate, and the investors shall be entitled to sell back the relevant corporate bonds to the subsidiary, at the end of the third year.
- (9) The corporation bonds issued by Cinda Real Estate Co., Ltd., a subsidiary of the Cinda Investment, have fixed coupon rates, payable annually. The subsidiary shall be entitled to adjust the coupon rates, and the investors shall be entitled to sell back the relevant corporate bonds to the subsidiary, at the end of the second year.
- (10) The financial bonds issued by Cinda Financial Leasing Co., Ltd., a subsidiary of the company, have a fixed coupon rate, payable annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

60. Bonds issued (Continued)

- (11) The HKD bonds issued by Cinda International holdings limited, a subsidiary of China Cinda Hong Kong Holdings Company Limited (“Cinda Hong Kong”), have fixed coupon rates, payable semi-annually.
- (12) The USD Guaranteed Senior Notes (the “USD Notes”) issued by China Cinda Finance Limited, a subsidiary of Cinda Hong Kong, have fixed coupon rates, payable semi-annually. At any time prior to the date of maturity of the USD Notes, the issuer or Cinda Hong Kong may redeem the USD Notes, in whole or in part.
- (13) USD Notes issued by China Cinda Finance Limited, a subsidiary of Cinda Hong Kong, have fixed coupon rates, payable semi-annually. There is no early redemption option in accordance with relevant subscription agreement.
- (14) The corporation bonds issued by Well Kent International Enterprises (Shenzhen) Co., Ltd., a subsidiary of Cinda Hong Kong, have fixed coupon rates, payable annually. The subsidiary shall be entitled to adjust the coupon rate, and the investors shall be entitled to sell back the relevant corporate bonds to the subsidiary, at the end of the third year.
- (15) The corporation bonds issued by Well Kent International Enterprises (Shenzhen) Co., Ltd., a subsidiary of Cinda Hong Kong, have fixed coupon rates, payable annually. The subsidiary shall be entitled to adjust the coupon rate, and the investors shall be entitled to sell back the relevant corporate bonds to the subsidiary, at the end of the second year.
- (16) The financial bonds issued by Nanyang Commercial Bank (China) Limited (“NCB China”), a subsidiary of Cinda Hong Kong, have fixed coupon rates, payable annually.
- (17) The deposit certificates were issued by NCB China.
- (18) The asset-backed securities are issued by the Company.
- (19) The corporation bonds issued by Cinda Securities Co., Ltd., a subsidiary of the Company, have fixed coupon rates, payable annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**61. Other liabilities****Group**

	As at December 31	
	2017	2016
Payables to interest holders of consolidated structured entities (Note VI.39)	20,753,006	31,318,185
Other payables	14,772,044	15,215,302
Receipts in advance from property sales	13,820,193	11,847,013
Risk deposit	5,352,486	5,748,064
Staff costs payable ⁽¹⁾	6,094,535	4,393,873
Liabilities related to insurance business	1,538,076	1,668,646
Interest payable	4,032,912	2,518,900
Deferred income related to leasing business	883,229	966,769
Long-term payable	745,229	1,206,365
Sundry taxes payable	767,018	588,930
Provisions ⁽²⁾	671,374	620,004
Receipts in advance associated with disposal of distressed assets	804,447	411,208
Dividends payable	11,489	6,772
Items in the process of clearance and settlement	971,110	683,336
Liabilities with continuing involvement (Note VI.72)	2,573,671	2,573,671
Others	1,080,937	849,135
Total	<u>74,871,756</u>	<u>80,616,173</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

61. Other liabilities (Continued)

Group (Continued)

(1) Staff costs payable

	2017			
	As at	Increase	Decrease	As at
	January 1	in the	in the	December 31
		current year	current year	
Wages or salaries, bonuses, allowances and subsidies	3,931,784	6,095,749	(4,477,230)	5,550,303
Social insurance	65,714	265,423	(246,855)	84,282
Defined contribution plans	26,223	409,958	(401,472)	34,709
Defined benefit plans ⁽ⁱ⁾	95,319	3,901	(11,140)	88,080
Housing funds	5,984	234,581	(234,923)	5,642
Labor union fees and staff education expenses	265,492	192,816	(128,154)	330,154
Others	3,357	378,726	(380,718)	1,365
Total	<u>4,393,873</u>	<u>7,581,154</u>	<u>(5,880,492)</u>	<u>6,094,535</u>
	2016			
	As at	Increase	Decrease	As at
	January 1	in the	in the	December 31
		current year	current year	
Wages or salaries, bonuses, allowances and subsidies	3,102,527	5,261,853	(4,432,596)	3,931,784
Social insurance	43,051	220,796	(198,133)	65,714
Defined contribution plans	191,134	414,844	(579,755)	26,223
Defined benefit plans ⁽ⁱ⁾	–	97,441	(2,122)	95,319
Housing funds	5,489	286,098	(285,603)	5,984
Labor union fees and staff education expenses	230,157	151,753	(116,418)	265,492
Others	22,995	290,278	(309,916)	3,357
Total	<u>3,595,353</u>	<u>6,723,063</u>	<u>(5,924,543)</u>	<u>4,393,873</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

61. Other liabilities (Continued)

Group (Continued)

(1) Staff costs payable (Continued)

(i) Defined benefit plans

Movements of retirement benefit of the Group's subsidiary NCB are as follows:

	2017	2016
At beginning of the year	95,319	–
Acquisition of subsidiaries	–	91,535
Current service cost	1,894	2,717
Interest cost	2,007	1,731
Actuarial (gains)/losses on remeasurement	(2,647)	1,457
Benefit paid	(2,284)	(2,379)
Exchange differences	(6,209)	258
	<u>88,080</u>	<u>95,319</u>
At end of the year	<u>88,080</u>	<u>95,319</u>

Principal actuarial assumptions used are as follows:

	As at December 31 2017	As at December 31 2016
Discount rate	2.2%	2.2%
Expected rate of medical insurance cost increases	6%	6%
Expected rate of social entertainment cost increases	0%	0%
Expected rate of retirement souvenir cost increases	0%	0%
Expected rate of rental increases	3%	3%
Expected rate of withdrawal	3%-18%	3%-18%
	Hong Kong Life Tables 2012	Hong Kong Life Tables 2012
Expected death rate		

(2) Movements of provisions

	Year ended December 31 2017	2016
At beginning of the year	620,004	498,522
Provided for the year	173,255	219,466
Settled/Reversed	(121,885)	(97,984)
	<u>671,374</u>	<u>620,004</u>
At end of the year	<u>671,374</u>	<u>620,004</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

61. Other liabilities (Continued)

Company

	As at December 31	
	2017	2016
Other payables	5,786,279	7,700,787
Staff costs payable ⁽¹⁾	3,260,717	1,805,476
Interest payable	2,070,957	913,819
Sundry taxes payable	239,504	176,889
Provisions ⁽²⁾	491,274	455,439
Receipts in advance associated with disposal of distressed assets	804,447	411,208
Liabilities with continuing involvement (Note VI.72)	2,573,671	2,573,671
Others	148,023	292,177
Total	<u>15,374,872</u>	<u>14,329,466</u>

(1) Staff costs payable

	2017			
	As at	Increase	Decrease	As at
	January 1	in the	in the	December 31
		current year	current year	
Wages or salaries, bonuses, allowances and subsidies	1,663,827	2,303,521	(930,843)	3,036,505
Social insurance	41,328	132,238	(108,505)	65,061
Defined contribution plans	2,662	159,436	(158,810)	3,288
Housing funds	454	70,770	(70,808)	416
Labor union fees and staff education expenses	95,879	103,658	(44,995)	154,542
Others	1,326	62,063	(62,484)	905
Total	<u>1,805,476</u>	<u>2,831,686</u>	<u>(1,376,445)</u>	<u>3,260,717</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

61. Other liabilities (Continued)

Company (Continued)

(1) Staff costs payable (Continued)

	2016			
	As at January 1	Increase in the current year	Decrease in the current year	As at December 31
Wages or salaries, bonuses, allowances and subsidies	1,087,743	1,424,911	(848,827)	1,663,827
Social insurance	19,756	92,129	(70,557)	41,328
Defined contribution plans	2,657	131,017	(131,012)	2,662
Housing funds	85	67,064	(66,695)	454
Labor union fees and staff education expenses	66,052	64,121	(34,294)	95,879
Others	2,081	43,044	(43,799)	1,326
Total	<u>1,178,374</u>	<u>1,822,286</u>	<u>(1,195,184)</u>	<u>1,805,476</u>

(2) Movements of provisions

	Year ended December 31	
	2017	2016
At beginning of the year	455,439	422,439
Provided for the year	38,219	70,000
Settled/Reversed	<u>(2,384)</u>	<u>(37,000)</u>
At end of the year	<u>491,274</u>	<u>455,439</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

62. Share capital

Group and Company

	Year ended December 31	
	2017	2016
Authorized, issued and fully paid:		
At beginning of the year	38,164,535	36,256,690
Issue of shares	–	1,907,845
At end of the year	<u>38,164,535</u>	<u>38,164,535</u>

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

	2017		
	As at January 1	Issuance	As at December 31
Domestic shares			
– MOF	24,596,932	–	24,596,932
H shares	<u>13,567,603</u>	<u>–</u>	<u>13,567,603</u>
Total	<u>38,164,535</u>	<u>–</u>	<u>38,164,535</u>

	2016		
	As at January 1	Issuance	As at December 31
Domestic shares			
– MOF	24,596,932	–	24,596,932
H shares	<u>11,659,758</u>	<u>1,907,845</u>	<u>13,567,603</u>
Total	<u>36,256,690</u>	<u>1,907,845</u>	<u>38,164,535</u>

As at December 31, 2017, there was no share subject to lock-up restriction of the Group (As at December 31, 2016, 1,907,845 thousand shares were subject to lock-up restriction of the Group, and the restricted stock trade period is 12 months).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

63. Other Equity Instruments

Group and Company

For the year ended December 31, 2017, the movements of the Company's other equity instruments were as follows:

	As at 1 January 2017		Increase		Decrease		As at December 31, 2017	
	Quantity (shares) (In '000)	Carrying Amount (In '000)	Quantity (shares) (In '000)	Carrying Amount (In '000)	Quantity (shares) (In '000)	Carrying Amount (In '000)	Quantity (shares) (In '000)	Carrying Amount (In '000)
Preference Shares – 2016 Offshore Preference Shares	160,000	21,281,215	-	-	-	-	160,000	21,281,215
Total	160,000	21,281,215	-	-	-	-	160,000	21,281,215

The Company issued the U.S. dollar settled Non-Cumulative Perpetual Offshore Preference Shares (the “Offshore Preference Shares”) on September 30, 2016. In the year of 2017, the Company distributed dividends for the Offshore Preference Shares of US\$158.22 million.

64. Capital reserve

The balance of capital reserve mainly represents share premium arising from the Company's initial public offering of H shares and other previous shares issuances in current and prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**65. Other comprehensive income/(expense)****Group**

Other comprehensive income attributable to equity holders of the Company is set out below:

	Year ended December 31	
	2017	2016
At beginning of the year	559,220	1,109,321
Items to be reclassified subsequently to profit or loss:		
Fair value changes on available-for-sale financial assets		
Fair value changes arising during the year	(2,497,544)	(1,540,264)
Amounts reclassified to profit or loss upon disposal	811,296	(45,743)
Amounts reclassified to profit or loss upon impairment	388,201	(10,415)
Income tax effect	228,642	335,271
	(1,069,405)	(1,261,151)
Effective portion of changes in fair value of hedging instruments arising during the year	(57,665)	57,665
Income tax effect	14,416	(14,416)
	(43,249)	43,249
Exchange differences arising on translation of foreign operations	(1,222,837)	726,599
Share of other comprehensive income/(expense) of associates and joint ventures	93,611	(60,015)
Income tax effect	(5,101)	—
	(2,246,981)	(551,318)
Items not to be reclassified subsequently to profit or loss:		
Remeasurement of supplementary retirement benefits	2,647	1,457
Income tax effect	(437)	(240)
	2,210	1,217
Subtotal	(2,244,771)	(550,101)
At end of the year	(1,685,551)	559,220

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

65. Other comprehensive income/(expense)

Company

	Year ended December 31	
	2017	2016
At beginning of the year	911,454	1,548,215
Fair value changes on available-for-sale financial assets		
Fair value changes arising during the year	(1,736,921)	(1,251,504)
Amounts reclassified to profit or loss upon disposal	1,489,706	464,751
Amounts reclassified to profit or loss upon impairment	186,164	65,080
Income tax effect	10,162	180,418
Share of other comprehensive income of associates and joint ventures	29,725	(95,506)
Others	2,515	—
Subtotal	(18,649)	(636,761)
At end of the year	892,805	911,454

66. Surplus reserve

Under the PRC Laws, the Company and its domestic subsidiaries are required to transfer 10% of its net profit determined under the PRC GAAP to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of such reserve has reached 50% of the share capital of the entity.

67. General reserve

For the years ended December 31, 2017 and 2016, as approved by the general meetings of the Company and the board of directors meetings of its subsidiaries, the Group transferred a total of RMB2,762.49 million and RMB3,004.67 million, respectively to general reserve pursuant to the regulatory requirements in the PRC, among which, the Company transferred RMB1,757.31 million and RMB899.95 million, respectively to general reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

68. Retained earnings

During the years ended December 31, 2017 and 2016, the retained earnings of the Company were as follows:

Company

	Year ended December 31	
	2017	2016
At beginning of the year	30,589,352	24,395,959
Profit for the year	13,939,790	12,558,607
Appropriation to surplus reserve	(1,393,979)	(1,255,861)
Appropriation to general reserve	(1,757,311)	(899,951)
Dividends recognized as distribution	(5,704,976)	(4,209,402)
Others	(95,202)	—
At end of the year	<u>35,577,674</u>	<u>30,589,352</u>

69. Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent:

	As at December 31	
	2017	2016
Cash	507,808	505,840
Balances with central banks	9,386,004	3,928,102
Deposits with banks and financial institutions	36,762,125	37,758,793
Placements with financial institutions	15,066,940	3,000,000
Financial assets held under resale agreements	45,521,296	37,371,357
Available-for-sale financial assets	<u>12,686,168</u>	<u>1,543,557</u>
Cash and cash equivalents	<u>119,930,341</u>	<u>84,107,649</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

70. Major non-cash transactions

As part of its distressed asset management business, the Group entered into transactions of debt-to-equity swap with counterparties in the ordinary courses of business during the year. For the year ended December 31, 2017, equity instruments amounting to RMB2,324.97 million (December 31, 2016: RMB122.95 million) were swapped with equity instruments held by the Group with carrying value of RMB2,020.50 million (December 31, 2016: RMB122.95 million).

For the year ended December 31, 2017, four debt-to-equity-swap investees held by the Company, which were classified as available-for-sale financial assets, had been derecognized and reinvested as interests in associates and joint ventures due to that the Company became capable of exercising significant influence or having joint control over the investees with initial cost of RMB8,220.43 million, and the carrying amount of RMB20,285.41 million was recognized accordingly. For the year ended December 31, 2016, two debt-to-equity-swap investees held by the Company, which were classified as available-for-sale financial assets, had been derecognized and reinvested as interests in associates due to that the Company became capable of exercising significant influence over the investees with initial cost of RMB1,136.22 million, and the carrying amount of RMB4,524.09 million was recognized accordingly.

71. Contingent liabilities and commitments

(1) *Legal proceedings*

Group and Company

The Company and its subsidiaries are involved as defendants in certain lawsuits arising from their normal business operations. As at December 31, 2017 and 2016, total claim amounts of pending litigations were RMB1,904.77 million and RMB1,608.41 million for the Group and RMB545.96 million and RMB416.87 million for the Company respectively, and provisions of RMB128.68 million and RMB90.51 million for the Group and RMB88.90 million and RMB88.90 million for the Company respectively were made based on court judgements or the advice of legal counsels. The directors of the Company believe that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group and the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

71. Contingent liabilities and commitments (Continued)

(2) Commitments other than operating lease commitments

Group

	As at December 31	
	2017	2016
Contracted but not provided for		
Commitments for the acquisition of property and equipment	3,877	18,081
Commitments for the acquisition of investments	—	62,544
Total	<u>3,877</u>	<u>80,625</u>

Company

	As at December 31	
	2017	2016
Contracted but not provided for		
Commitments for the acquisition of property and equipment	931	5,833
Total	<u>931</u>	<u>5,833</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

71. Contingent liabilities and commitments (Continued)

(3) Operating lease commitments

At the end of 2017 and 2016, the Group and the Company, as a lessee, had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

Group

	As at December 31	
	2017	2016
Within 1 year	701,476	407,544
1 to 2 years	570,595	307,838
2 to 3 years	240,845	212,392
3 to 5 years	217,887	252,562
Over 5 years	12,864	66,885
Total	<u>1,743,667</u>	<u>1,247,221</u>

Company

	As at December 31	
	2017	2016
Within 1 year	165,312	141,254
1 to 2 years	139,115	119,910
2 to 3 years	9,103	107,865
3 to 5 years	8,651	—
Total	<u>322,181</u>	<u>369,029</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

71. Contingent liabilities and commitments (Continued)

(4) Credit commitments

	As at December 31	
	2017	2016
Bank bill acceptance	13,235,863	20,638,657
Loan commitments ⁽ⁱ⁾	8,927,859	9,034,301
Letters of guarantee issued	4,345,409	3,623,068
Undrawn credit card commitments	717,188	704,809
Letters of credit issued	3,169,076	2,919,985
Others	9,179,775	4,313,640
Total	<u>39,575,170</u>	<u>41,234,460</u>

These credit commitments mainly arise from the banking business of the Group.

- (i) Loan commitments represent undrawn loan facilities agreed and granted to customers. Unconditionally revocable loan commitments are not included in loan commitments. As at December 31, 2017, the unconditionally revocable loan commitments of the Group amounted to RMB73,102 million (December 31, 2016: RMB72,496 million).

(5) Other commitments provided by the Group

As a result of the purchase commitments and guarantees provided by the Group, the Group has the ability to use its power over the structured entities to affect their returns and is exposed to significant variable returns and the structured entities. These structured entities have been consolidated into the Group's financial statements. Please refer to note VI.39.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

72. Transfers of financial assets

(1) Repurchase agreements

The Group entered into sales agreements with certain counterparties on its financial assets, in which the Group was subject to simultaneous agreements with commitments to repurchase these financial assets at specified future dates and prices. As stipulated in the repurchase agreements, there is no transfer of the legal ownership of these financial assets to the counterparties during the covered period. However, the Group is not allowed to sell or pledge these financial assets during the covered period unless both parties mutually agree with such arrangement. Accordingly, the Group has determined that it retains substantially all the risks and rewards of these financial assets and therefore these financial assets have not been derecognized from the financial statements but regarded as “collateral” for the secured lending from the counterparties. Normally, the counterparties could only claim from the collateral when there is an event of default on the secured lending.

	Carrying amount of pledged assets		Related liabilities	
	December 31		December 31	
	2017	2016	2017	2016
Held-for-trading debt securities	–	130,916	–	120,000
Available-for-sale debt securities	3,423,018	7,457,377	2,710,267	6,952,213
Held-to-maturity debt securities	3,016,000	–	2,920,000	–
Loans to margin clients	1,110,028	811,000	1,000,000	800,000
Total	<u>7,549,046</u>	<u>8,399,293</u>	<u>6,630,267</u>	<u>7,872,213</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

72. Transfers of financial assets (Continued)

(2) *Transfers of rights to distressed debt assets*

The Group enters into transactions by which it transfers the rights to distressed debt assets to structured entities. Under such circumstance, the Group partially retains risks and rewards on the transferred distressed assets by holding tranches of the structured entities. The Group will assess whether to derecognize relevant distressed assets or not based on the extent of risks and rewards retained. If the Group neither transfers nor retains substantially all the risks and rewards of the ownership of certain transferred assets and retains the control on the transferred assets, the Group will recognize the assets on the statement of financial position to the extent of the Group's continuing involvement. The extent of the Group's continuing involvement is the extent to which the Group is exposed to changes in the value of the distressed assets. As at December 31, 2017, the carrying amounts of continuing involvement assets and liabilities recognized by the Group were both RMB2,573.67 million respectively (As at December 31, 2016: RMB2,573.67 million), which were recognized in other assets and other liabilities respectively. The fair value and the maximum risk exposure approximate their carrying amounts.

(3) *Asset-backed securities*

The Group enters into securitization transactions in the normal course of business by which it transfers financial assets classified as receivables to structured entities which issue asset-backed securities to investors. The Group assessed among other factors, whether or not to derecognize the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished its controls over these assets based on the criteria as detailed in Note IV 7.5 and Note V 6.

With respect to the securitization of financial assets that do not qualify for derecognition, the relevant financial assets are not derecognised, and the consideration paid by third parties are recorded as a financial liability. As at 31 December 2017, the Group's carrying amount of transferred assets that did not qualify for derecognition was RMB3,327.68 million(31 December 2016:.Nil), and carrying amount of their associated liabilities was RMB4,468.43 million(31 December 2016:.Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

73. Segment information

Information relating to business lines are reported to the Board of Directors of the Company and its relevant management committees, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance.

Segment revenue include income from distressed debt assets classified as receivables, fair value changes on distressed debt assets, investment income, net insurance premiums earned and others.

Profit before tax is the measure of segment profit or loss reviewed by the chief operating decision makers.

The Group's reportable and operating segments are as follows:

Distressed asset management operations

The distressed asset management segment comprises relevant business operated by the Company and certain of its subsidiaries, including the management of assets arising from acquisition of distressed debts and debt-to-equity-swap and the provision of clearing settlement and fiduciary services.

Financial investment and asset management operations

The financial investment and asset management segment comprises relevant business operated by the Company and certain of its subsidiaries, including the management of financial investments on private funds and companies in certain other industries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

73. Segment information (Continued)

Financial services operations

The Group's financial services segment comprises relevant business of the Group, including the provision of financial services in sectors such as bank, securities, insurance, financial leasing and asset management. These operations were mainly carried out by the subsidiaries of the Company.

No operating segments identified by the chief operating decision makers have been aggregated in arriving at the reportable segments of the Group.

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

There is no significant customer concentration of the Group's business. There is no customer contributing more than 10% of the Group's revenue.

Segment income, expense, gains, losses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

73. Segment information (Continued)

	Distressed asset management	Financial investment and asset management	Financial services	Elimination	Consolidated
Year ended December 31, 2017					
Income from distressed debt assets					
classified as receivables	17,773,020	–	–	–	17,773,020
Fair value changes on distressed					
debt assets	8,382,536	–	–	(116,174)	8,266,362
Fair value changes on other financial					
instruments	396,196	1,084,615	1,101,914	(502)	2,582,223
Investment income	16,870,028	6,513,852	6,684,387	(602,520)	29,465,747
Net insurance premiums earned	–	–	19,267,995	(1,067)	19,266,928
Interest income	3,162,660	6,388,755	11,596,678	(507,303)	20,640,790
Revenue from sales of inventories	–	14,425,517	–	–	14,425,517
Commission and fee income	97,349	397,398	4,070,314	(346,137)	4,218,924
Net gains on disposal of subsidiaries,					
associates and joint ventures	19,994	3,640,227	–	(1,061)	3,659,160
Other income and other net gains or					
losses	(1,432,535)	1,257,874	120,246	(209,628)	(264,043)
Total	45,269,248	33,708,238	42,841,534	(1,784,392)	120,034,628
Interest expense	(20,203,475)	(7,767,426)	(8,892,901)	952,724	(35,911,078)
Insurance costs	–	–	(20,913,852)	193	(20,913,659)
Employee benefits	(2,890,138)	(902,209)	(3,618,991)	–	(7,411,338)
Purchases and changes in inventories	–	(10,442,543)	–	86,735	(10,355,808)
Commission and fee expense	(494,360)	(99,645)	(1,836,761)	25,905	(2,404,861)
Taxes and surcharges	(186,125)	(408,214)	(93,022)	–	(687,361)
Depreciation and amortization expenses	(120,121)	(136,676)	(598,312)	1,137	(853,972)
Other expenses	(408,197)	(2,045,898)	(2,204,260)	364,377	(4,293,978)
Impairment losses on assets	(6,456,399)	(2,960,136)	(1,988,145)	–	(11,404,680)
Total	(30,758,815)	(24,762,747)	(40,146,244)	1,431,071	(94,236,735)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

73. Segment information (Continued)

	Distressed asset management	Financial investment and asset management	Financial services	Elimination	Consolidated
Change in net assets attributable to other holders of consolidated structured entities	–	(938,230)	(346,518)	–	(1,284,748)
Profit before share of results of associates and joint ventures and tax	14,510,433	8,007,261	2,348,772	(353,321)	24,513,145
Share of results of associates and joint ventures	565,338	1,034,479	17,854	–	1,617,671
Profit before tax	15,075,771	9,041,740	2,366,626	(353,321)	26,130,816
Income tax expense					(7,372,990)
Profit for the year					18,757,826
Capital expenditure	63,695	542,058	1,089,675	–	1,695,428
As at December 31, 2017					
Segment assets	593,061,637	301,566,342	545,215,743	(58,056,983)	1,381,786,739
Including: Interests in associates and joint ventures	48,789,259	20,364,632	697,173	–	69,851,065
Unallocated assets					5,150,810
Total assets					1,386,937,549
Segment liabilities	504,793,232	255,009,075	504,900,221	(50,614,653)	1,214,087,875
Unallocated liabilities					4,585,012
Total liabilities					1,218,672,887

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

73. Segment information (Continued)

	Distressed asset management	Financial investment and asset management	Financial services	Elimination	Consolidated
Year ended December 31, 2016					
Income from distressed debt assets					
classified as receivables	15,656,958	–	–	(117,713)	15,539,245
Fair value changes on distressed debt					
assets	5,856,710	–	–	(140,482)	5,716,228
Fair value changes on other financial					
instruments	1,007,394	987,514	665,741	(4,378)	2,656,271
Investment income	7,107,654	6,084,726	5,833,433	(1,034,476)	17,991,337
Net insurance premiums earned	–	–	16,637,847	(2,094)	16,635,753
Interest income	959,152	6,490,818	7,193,625	(137,098)	14,506,497
Revenue from sales of inventories	–	10,954,587	–	–	10,954,587
Commission and fee income	41,615	660,633	3,415,886	(270,063)	3,848,071
Net gains on disposal of subsidiaries,					
associates and joint ventures	414,005	582,967	–	–	996,972
Other income and other net gains or					
losses	1,025,825	1,541,647	418,557	(173,763)	2,812,266
Total	32,069,313	27,302,892	34,165,089	(1,880,067)	91,657,227
Interest expense	(13,108,261)	(5,591,234)	(5,042,494)	518,146	(23,223,843)
Insurance costs	–	–	(17,549,048)	–	(17,549,048)
Employee benefits	(1,875,147)	(704,972)	(3,529,532)	–	(6,109,651)
Purchases and changes in inventories	–	(8,478,280)	–	22,495	(8,455,785)
Commission and fee expense	(151,376)	(82,503)	(1,910,352)	21,869	(2,122,362)
Taxes and surcharges	(389,563)	(709,956)	(203,106)	–	(1,302,625)
Depreciation and amortization expenses	(59,991)	(367,297)	(280,834)	(32,303)	(740,425)
Other expenses	(450,470)	(1,762,221)	(2,154,080)	326,503	(4,040,268)
Impairment losses on assets	(1,796,508)	(1,879,142)	(1,086,891)	(51,156)	(4,813,697)
Total	(17,831,316)	(19,575,605)	(31,756,337)	805,554	(68,357,704)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

73. Segment information (Continued)

	Distressed asset management	Financial investment and asset management	Financial services	Elimination	Consolidated
Change in net assets attributable to other holders of consolidated structured entities	–	(2,024,497)	(307,246)	–	(2,331,743)
Profit before share of results of associates and joint ventures and tax	14,237,997	5,702,790	2,101,506	(1,074,513)	20,967,780
Share of results of associates and joint ventures	186,808	606,111	4,803	–	797,722
Profit before tax	14,424,805	6,308,901	2,106,309	(1,074,513)	21,765,502
Income tax expense					(5,783,491)
Profit for the year					<u>15,982,011</u>
Capital expenditure	<u>133,710</u>	<u>753,958</u>	<u>436,515</u>	<u>–</u>	<u>1,324,183</u>
As at December 31, 2016					
Segment assets	457,606,682	269,186,552	493,780,081	(51,970,299)	1,168,603,016
Including: Interests in associates and joint ventures	11,977,454	7,281,798	304,348	–	19,563,600
Unallocated assets					<u>5,877,907</u>
Total assets					<u>1,174,480,923</u>
Segment liabilities	381,219,458	218,506,768	465,934,054	(43,428,103)	1,022,232,177
Unallocated liabilities					<u>4,278,725</u>
Total liabilities					<u>1,026,510,902</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

74. Related party transactions

(1) *The MOF*

Group

As at December 31, 2017, the MOF directly owned 64.45% (December 31, 2016: 64.45%) of the share capital of the Company.

The MOF is one of the ministries under the State Council, primarily responsible for state fiscal revenue and expenditures, and taxation policies. The entities controlled or regulated by the MOF are mainly financial institutions.

The Group had the following balances and had entered into the following transactions with the MOF in its ordinary course of business:

The Group had the following balances with the MOF:

	As at December 31	
	2017	2016
Financial assets at fair value through profit or loss	120,683	1,038,680
Available-for-sale financial assets	15,229,858	1,569,559
Held-to-maturity investments	–	1,247,255
Accounts receivable	1,597	–
Interest receivable	444	9,834

The Group had entered into the following transactions with the MOF:

	Year ended December 31	
	2017	2016
Interest income	189,399	128,296

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

74. Related party transactions (Continued)

(1) *The MOF (Continued)*

Company

The Company had the following balances with the MOF:

	As at December 31	
	2017	2016
Accounts receivable	<u>1,597</u>	<u>—</u>

For the years ended December 31, 2017 and 2016, the Company had no transaction with the MOF.

(2) *Subsidiaries*

The Company had the following balances with its subsidiaries:

	As at December 31	
	2017	2016
Financial assets at fair value through profit or loss	1,336,596	1,402,521
Financial assets classified as receivables	19,237	—
Property and equipment	18,000	18,000
Amounts due from subsidiaries	32,921,971	30,533,368
Bonds issued	253,153	144,384
Other payables	115,327	191,344
Payments received in advance	—	323
Accounts payable	<u>2,393</u>	<u>—</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

74. Related party transactions (Continued)

(2) Subsidiaries (Continued)

The Company had entered into the following transactions with its subsidiaries:

	Year ended December 31	
	2017	2016
Interest income	489,269	61,559
Rental income	28,717	23,331
Investment income	10,746	53,709
Gains on disposal of distressed debt assets	35,283	153,093
Fair value changes on other financial assets	80,891	105,102
Dividend income	1,041,642	2,027,911
Commission and fee income	19,940	7,455
Commission and fee expense	2,259	1,458
Business and management fees	307,063	253,980
Other income and other net gains or losses	4,636	—
Interest expense	55,760	—

(3) Associates

The Group had the following balances and had entered into the following transactions with its associates. These transactions were carried out in the ordinary course of business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

74. Related party transactions (Continued)

(3) Associates (Continued)

Group

The Group had the following balances with its associates:

	As at December 31	
	2017	2016
Loans and advances to customers	1,421,823	2,436,572
Interest receivable	42,527	60,117
Accounts receivable	–	110,000
Dividend receivable	295,071	197,256
Other receivables	522,198	35,100
Risk deposit	71,500	40,000
Deferred income related to leasing business	15,093	3,941
Other payables	270	2,726,203

The Group had entered into the following transactions with its associates:

	Year ended December 31	
	2017	2016
Interest income	41,107	336,520
Commission and fee income	4,517	17,500
Dividend income	64,384	5,446
Net insurance premiums income	–	6,362
Rental income	32,707	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

74. Related party transactions (Continued)

(3) Associates (Continued)

Company

The Company had entered into the following transactions with its associates:

	Year ended December 31	
	2017	2016
Dividend receivable	295,071	197,256
Dividend income	<u>64,384</u>	<u>5,446</u>

(4) Government related entities

Other than those disclosed above, the Group also entered into transactions with other government related entities. These transactions were entered into under normal commercial terms and conditions. None of them were individually significant. Management considers that transactions with the government related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that both the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government related entities.

(5) Defined contribution plans

Group

The Group had the following transactions with the defined contribution plans set up by the Company:

	Year ended December 31	
	2017	2016
Contribution to defined contribution plans	<u>129,058</u>	<u>94,541</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

74. Related party transactions (Continued)

(5) Defined contribution plans (Continued)

Company

The Company had the following transactions with the defined contribution plans:

	Year ended December 31	
	2017	2016
Contribution to defined contribution plans	<u>70,261</u>	<u>47,917</u>

(6) Defined benefit plans

Group

Movements of retirement benefit of the Group due to its subsidiary NCB:

	Year ended December 31	
	2017	2016
Current service cost	<u>1,894</u>	<u>2,717</u>

- (7) During the year, the Group did not conduct any connected transactions or continuing connected transactions required to be reported, announced or approved by independent shareholders under Chapter 14A “Connected Transactions” of the Listing Rules.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management

Overview

The Group's primary objectives of risk management are to ensure (1) the prudent operation and sound business development of the Group; (2) the execution of significant decisions to achieve business targets and ensure operational efficiency; and (3) that risks are managed within a range consistent with our strategies and business targets. Based on this, the Group has designed a series of risk management policies and set up controls to identify, analyze, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews and revises its risk management policies and systems to reflect changes in markets, products and emerging best practices.

The most significant types of risks to the Group are credit risk, market risk and liquidity risk. Market risk includes interest rate risk, currency risk and other price risk.

Risk Management Framework

The Board of Directors is responsible for establishing the overall risk appetite of the Group and reviewing and approving the risk management objectives and strategies. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Group's risk strategy and risk management policies and evaluating the Group's overall risk exposures regularly.

Within this framework, the Group's senior management has overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies and approving internal policies, measures and procedures relating to risk management. The Risk Management Department and other relevant functional units are responsible for monitoring financial risks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk

(i) Credit risk management

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligation. Credit risk can also arise from operational failures that result in an unauthorized or inappropriate advance, commitment or investment of funds. The Group's major credit risks arise from financial assets classified as receivables, loans and advance to customers and other guarantees. There is no significant difference of the credit risk of distressed debt assets classified as receivables and other debt assets. Risk management of distressed assets is detailed in note VI.75.4.

The Group implements the following measures to mitigate credit risk:

- Referencing to external credit rating information to manage the credit quality of counterparty, and selecting counterparty with acceptable credit quality and repayment ability to balance credit risk and return;
- Obtaining effective collateral from counterparty to mitigate risks.

In particular, credit risk relating to investment assets such as debt securities and trust products is managed by selecting counterparty with acceptable credit quality, balancing credit risk and return, referencing to both internal and external credit rating information where available and by applying appropriate limits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(ii) Impairment assessment

Credit assets are measured at amortized cost using effective interest rate. The Group reviews the carrying amount of these assets at the end of each reporting period and recognizes impairment losses when there is objective evidence that the assets are impaired. The objective evidences of impairment could include:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(ii) Impairment assessment (Continued)

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

(iii) Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure to the Group at the end of each reporting period without taking into account any collateral held or other credit enhancements. The exposure to credit risk at the end of each reporting period mainly arises from distressed debt assets acquired from financial institutions and non-financial institutions, loans and advance to customers and treasury operations. At the end of each reporting period, maximum exposure to credit risk other than distressed debt assets is as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(iii) *Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)*

Group

	As at December 31	
	2017	2016
Balances with central banks	21,003,272	16,862,125
Deposits with banks and financial institutions	54,429,215	75,801,266
Deposits with exchanges and others	1,124,895	2,047,567
Placements with banks and financial institutions	18,160,410	26,277,582
Financial assets at fair value through profit or loss	19,070,191	20,765,833
Financial assets held under resale agreements	60,109,388	41,973,962
Available-for-sale financial assets	141,472,919	104,613,182
Financial assets classified as receivables	234,226,871	198,787,226
Loans and advance to customers	312,117,520	294,936,591
Accounts receivables	3,729,135	3,522,114
Held-to-maturity investments	13,227,363	12,635,621
Other assets	26,122,964	9,089,830
Subtotal	904,794,143	807,312,899
Off-balance sheet		
Bank bill acceptance	13,235,863	20,638,657
Loan commitments	8,927,859	9,034,301
Letters of guarantee issued and other credit commitments	17,411,448	11,561,502
Subtotal	39,575,170	41,234,460
Total	944,369,313	848,547,359

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(iii) *Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)*

Company

	As at December 31	
	2017	2016
Balances with central banks	2,364	2,347
Deposits with banks and financial institutions	11,568,824	17,325,021
Placements with banks and financial institutions	–	3,000,000
Financial assets at fair value through profit or loss	685,993	572,050
Financial assets held under resale agreements	33,869,540	32,916,015
Available-for-sale financial assets	30,643,968	19,870,140
Financial assets classified as receivables	216,046,632	187,003,286
Accounts receivable	2,073,315	2,077,047
Amounts due from subsidiaries	34,068,270	26,050,316
Other assets	7,780,979	3,337,396
Total	<u>336,739,885</u>	<u>292,153,618</u>

Distressed debt assets designated as at fair value through profit or loss contain certain elements of credit risk. The risks such assets exposed to are detailed in note VI.75.4. The carrying amounts of distressed debt assets designated as at fair value through profit or loss were RMB148,790.13 million and RMB94,458.59 million for the Group and RMB148,801.96 million and RMB93,763.78 million for the Company as at December 31, 2017 and 2016, respectively.

The Group implements specific policies and credit enhancement practices to mitigate credit risk exposure to an acceptable level. The most typical practice is by obtaining guarantee deposits, collateral and/or guarantees. The amount and type of acceptable collateral are determined by credit risk evaluations of counterparties. The Group implements guidelines on the acceptability of specific classes of collateral and evaluation parameters. The main types of collateral obtained are land and properties or other assets of the borrowers. The Group monitors the market value of collateral periodically and requests for additional collateral in accordance with the underlying agreement when necessary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(iv) *Risk concentration of distressed debt assets classified as receivables and loans and advances to customers*

Group

	As at December 31	
	2017	2016
Distressed debt assets classified as receivables	223,957,479	191,440,447
Loans and advances to customers	319,035,461	300,467,358
Subtotal	542,992,940	491,907,805
Allowance for impairment losses		
Distressed debt assets classified as receivables	(8,793,775)	(6,993,472)
Loans and advances to customers	(6,917,941)	(5,530,767)
Subtotal	(15,711,716)	(12,524,239)
Net carrying amounts		
Distressed debt assets classified as receivables	215,163,704	184,446,975
Loans and advances to customers	312,117,520	294,936,591
Total	527,281,224	479,383,566

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(iv) *Risk concentration of distressed debt assets classified as receivables and loans and advances to customers (Continued)*

Company

	As at December 31	
	2017	2016
Distressed debt assets classified as receivables	223,984,961	191,483,667
Allowance for impairment losses	(8,802,019)	(7,009,873)
Net carrying amounts	<u>215,182,942</u>	<u>184,473,794</u>

By geographical area

Group

Area	As at December 31			
	2017		2016	
	Gross amount	%	Gross amount	%
Overseas	134,759,958	24.8	117,174,711	23.8
Yangtze River Delta	85,085,506	15.7	67,898,353	13.8
Pearl River Delta	83,156,352	15.3	87,610,925	17.8
Central Region	82,355,399	15.2	71,222,457	14.5
Bohai Rim	77,374,811	14.2	71,076,247	14.4
Western Region	67,895,591	12.5	65,452,172	13.3
Northeastern Region	12,365,323	2.3	11,472,940	2.4
Total	<u>542,992,940</u>	<u>100.0</u>	<u>491,907,805</u>	<u>100.0</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(iv) *Risk concentration of distressed debt assets classified as receivables and loans and advances to customers (Continued)*

By geographical area (Continued)

Company

Area	As at December 31			
	2017		2016	
	Gross amount	%	Gross amount	%
Central Region	59,641,153	26.6	50,581,184	26.4
Bohai Rim	44,231,122	19.8	42,157,608	22.0
Yangtze River Delta	43,111,870	19.2	28,910,756	15.1
Pearl River Delta	37,459,162	16.7	34,905,606	18.2
Western Region	34,222,717	15.3	31,586,599	16.5
Northeastern Region	5,318,937	2.4	3,341,914	1.8
Total	<u>223,984,961</u>	<u>100.0</u>	<u>191,483,667</u>	<u>100.0</u>

Notes:

Central Region:	Including Shanxi, Henan, Hunan, Hubei, Anhui, Jiangxi, and Hainan.
Bohai Rim:	Including Beijing, Tianjin, Hebei, and Shandong.
Yangtze River Delta:	Including Shanghai, Jiangsu, and Zhejiang.
Pearl River Delta:	Including Guangdong, Shenzhen, and Fujian.
Western Region:	Including Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Guangxi, Gansu, Qinghai, Xinjiang, Ningxia, and Inner Mongolia.
Northeastern Region:	Including Liaoning, Jilin, and Heilongjiang.
Overseas:	Including Hong Kong and other overseas regions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(iv) Risk concentration of distressed debt assets classified as receivables and loans and advances to customers (Continued)

By industry

Group

Industry	As at December 31			
	2017 Gross amount	%	2016 Gross amount	%
Corporate business				
Real estate	214,169,261	39.4	208,258,573	42.3
Manufacturing	69,479,071	12.8	68,349,309	13.9
Leasing and commercial services	50,684,787	9.3	28,667,429	5.8
Mining	34,435,735	6.3	27,492,723	5.6
Construction	26,198,326	4.8	13,621,145	2.8
Finance	22,242,348	4.1	16,807,815	3.4
Transportation, logistics and postal services	17,436,124	3.2	19,597,158	4.0
Production and supply of power, heat, gas and water	13,688,704	2.5	8,986,889	1.8
Others	52,181,941	9.7	58,272,644	11.9
Subtotal	500,516,297	92.1	450,053,685	91.5
Personal business				
Mortgage	24,699,191	4.6	24,840,116	5.0
Personal consumption loans	10,069,065	1.9	9,358,059	1.9
Subtotal	34,768,256	6.5	34,198,175	6.9
Loans to margin clients	7,708,387	1.4	7,655,945	1.6
Total	542,992,940	100.0	491,907,805	100.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(iv) *Risk concentration of distressed debt assets classified as receivables and loans and advances to customers (Continued)*

By industry (Continued)

Company

Industry	As at December 31			
	2017		2016	
	Gross amount	%	Gross amount	%
Real estate	111,924,734	50.0	100,315,723	52.4
Mining	27,172,248	12.1	21,218,346	11.1
Manufacturing	26,644,126	11.9	24,560,050	12.8
Wholesale and retail trade	12,903,202	5.8	10,734,016	5.6
Transportation, logistics and postal services	11,026,200	4.9	8,514,307	4.4
Construction	9,408,372	4.2	5,974,001	3.1
Leasing and commercial services	6,987,935	3.1	4,734,797	2.5
Others	17,918,144	8.0	15,432,427	8.1
Total	<u>223,984,961</u>	<u>100.0</u>	<u>191,483,667</u>	<u>100.0</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(iv) *Risk concentration of distressed debt assets classified as receivables and loans and advances to customers (Continued)*

By security type

Group

	As at December 31			
	2017		2016	
	Gross amount	%	Gross amount	%
Unsecured	129,036,444	23.8	110,450,282	22.5
Guaranteed	75,030,296	13.8	85,886,057	17.4
Mortgaged	226,185,597	41.6	215,446,716	43.8
Pledged	112,740,603	20.8	80,124,750	16.3
Total	<u>542,992,940</u>	<u>100.0</u>	<u>491,907,805</u>	<u>100.0</u>

Company

	As at December 31			
	2017		2016	
	Gross amount	%	Gross amount	%
Unsecured	9,589,650	4.3	7,483,270	3.9
Guaranteed	34,055,150	15.2	37,735,083	19.7
Mortgaged	139,576,040	62.3	119,046,864	62.2
Pledged	40,764,121	18.2	27,218,450	14.2
Total	<u>223,984,961</u>	<u>100.0</u>	<u>191,483,667</u>	<u>100.0</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(v) *Past due distressed debt assets classified as receivables and loans and advances to customers*

Group

	Gross amount as at December 31, 2017				Gross amount as at December 31, 2016				
	Up to 90 days (Including 90 days)	91 to 360 days (Including 360 days)	361 days to 3 years (Including 3 years)	Over 3 years	Total	Up to 90 days (Including 90 days)	91 to 360 days (Including 360 days)	361 days to 3 years (Including 3 years)	Over 3 years Total
Distressed debt assets classified as receivables	1,927,882	2,626,321	1,867,515	336,496	6,758,214	1,708,491	2,998,870	1,550,769	364,612 6,622,742
Loans and advances to customers	1,023,902	2,491,781	4,135,948	616,109	8,267,740	1,030,161	1,694,632	4,924,974	49,810 7,699,577
Total	<u>2,951,784</u>	<u>5,118,102</u>	<u>6,003,463</u>	<u>952,605</u>	<u>15,025,954</u>	<u>2,738,652</u>	<u>4,693,502</u>	<u>6,475,743</u>	<u>414,422</u> <u>14,322,319</u>

Company

	Gross amount as at December 31, 2017				Gross amount as at December 31, 2016				
	Up to 90 days (Including 90 days)	91 to 360 days (Including 360 days)	361 days to 3 years (Including 3 years)	Over 3 years	Total	Up to 90 days (Including 90 days)	91 to 360 days (Including 360 days)	361 days to 3 years (Including 3 years)	Over 3 years Total
Distressed debt assets classified as receivables	1,927,882	2,653,803	1,867,515	336,496	6,785,696	1,708,491	3,010,263	1,555,115	364,612 6,638,481

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(vi) *Credit quality of distressed debt assets classified as receivables and loans and advances to customers*

Group

	As at December 31	
	2017	2016
Neither past due nor impaired	526,858,086	477,564,367
Past due but not impaired ⁽¹⁾	5,387,912	6,234,340
Impaired ⁽²⁾	10,746,942	8,109,098
	<u>542,992,940</u>	<u>491,907,805</u>
Subtotal		
	<u>(15,711,716)</u>	<u>(12,524,239)</u>
Allowance for impairment losses		
Net carrying amount	<u>527,281,224</u>	<u>479,383,566</u>

Company

	As at December 31	
	2017	2016
Neither past due nor impaired	216,189,920	184,845,186
Past due but not impaired ⁽¹⁾	3,574,043	3,222,697
Impaired ⁽²⁾	4,220,998	3,415,784
	<u>223,984,961</u>	<u>191,483,667</u>
Subtotal		
	<u>(8,802,019)</u>	<u>(7,009,873)</u>
Allowance for impairment losses		
Net carrying amount	<u>215,182,942</u>	<u>184,473,794</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(vi) Credit quality of distressed debt assets classified as receivables and loans and advances to customers (Continued)

(1) Past due but not impaired distressed debt assets classified as receivables and loans and advances to customers

Group

	Gross amount as at December 31, 2017					Gross amount as at December 31, 2016				
	Up to 90 days (Including 90 days)	91 to 360 days (Including 360 days)	361 days to 3 years (Including 3 years)	Over 3 years	Total	Up to 90 days (Including 90 days)	91 to 360 days (Including 360 days)	361 days to 3 years (Including 3 years)	Over 3 years	Total
Distressed debt assets classified as receivables	1,927,882	1,646,161	-	-	3,574,043	1,703,812	1,303,790	20,095	195,000	3,222,697
Loans and advances to customers	791,804	1,009,407	12,658	-	1,813,869	1,011,394	1,178,497	803,662	18,090	3,011,643
Total	<u>2,719,686</u>	<u>2,655,568</u>	<u>12,658</u>	<u>-</u>	<u>5,387,912</u>	<u>2,715,206</u>	<u>2,482,287</u>	<u>823,757</u>	<u>213,090</u>	<u>6,234,340</u>

Company

	Gross amount as at December 31, 2017					Gross amount as at December 31, 2016				
	Up to 90 days (Including 90 days)	91 to 360 days (Including 360 days)	361 days to 3 years (Including 3 years)	Over 3 years	Total	Up to 90 days (Including 90 days)	91 to 360 days (Including 360 days)	361 days to 3 years (Including 3 years)	Over 3 years	Total
Distressed debt assets classified as receivables	<u>1,927,882</u>	<u>1,646,161</u>	<u>-</u>	<u>-</u>	<u>3,574,043</u>	<u>1,703,812</u>	<u>1,303,790</u>	<u>20,095</u>	<u>195,000</u>	<u>3,222,697</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(vi) *Credit quality of distressed debt assets classified as receivables and loans and advances to customers (Continued)*

(2) Impaired distressed debt assets classified as receivables and loans and advances to customers

Group

	As at December 31, 2017			As at December 31, 2016		
	Gross amount	Allowance for impairment losses	Net carrying amount	Gross amount	Allowance for impairment losses	Net carrying amount
Distressed debt assets classified as receivables						
– Individually assessed	4,193,516	(1,987,170)	2,206,346	3,400,045	(1,615,224)	1,784,821
Loans and advances to customers						
– Individually assessed	6,443,779	(3,291,803)	3,151,976	4,696,559	(2,066,194)	2,630,365
– Collectively assessed	109,647	(80,177)	29,470	12,494	(375)	12,119
Total	10,746,942	(5,359,150)	5,387,792	8,109,098	(3,681,793)	4,427,305

Company

	As at December 31, 2017			As at December 31, 2016		
	Gross amount	Allowance for impairment losses	Net carrying amount	Gross amount	Allowance for impairment losses	Net carrying amount
Distressed debt assets classified as receivables						
– Individually assessed	4,220,998	(1,995,414)	2,225,584	3,415,784	(1,630,963)	1,784,821

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(vi) *Credit quality of distressed debt assets classified as receivables and loans and advances to customers (Continued)*

(2) Impaired distressed debt assets classified as receivables and loans and advances to customers (Continued)

Group

	As at December 31	
	2017	2016
Distressed debt assets classified as receivables		
Individually assessed and impaired	4,193,516	3,400,045
Individually assessed and impaired as a % of total distressed debt assets classified as receivables (%)	1.9	1.8
Fair value of collateral	5,647,798	7,042,226
Loans and advances to customers		
Individually assessed and impaired	6,443,779	4,696,559
Individually assessed and impaired as a % of total loans and advances to customers (%)	2.0	1.6
Fair value of collateral	5,702,818	3,134,042

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(vi) *Credit quality of distressed debt assets classified as receivables and loans and advances to customers (Continued)*

(2) Impaired distressed debt assets classified as receivables and loans and advances to customers (Continued)

Company

	As at December 31	
	2017	2016
Distressed debt assets classified as receivables		
Individually assessed and impaired	4,220,998	3,415,784
Individually assessed and impaired as a % of total distressed debt assets classified as receivables (%)	1.9	1.8
Fair value of collateral	<u>5,647,798</u>	<u>7,343,917</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(vi) *Credit quality of distressed debt assets classified as receivables and loans and advances to customers (Continued)*

(2) Impaired distressed debt assets classified as receivables and loans and advances to customers (Continued)

Impaired distressed debt assets classified as receivables and loans and advances to customers by geographical area are analyzed as follows:

Distressed debt assets classified as receivables

Group

Area	As at December 31			
	2017		2016	
	Gross amount	%	Gross amount	%
Pearl River Delta	1,388,150	33.1	1,486,432	43.7
Yangtze River Delta	1,105,172	26.4	427,208	12.6
Bohai Rim	855,889	20.4	184,512	5.4
Western Region	805,534	19.2	733,388	21.6
Northeastern Region	38,771	0.9	83,120	2.4
Central Region	—	—	485,385	14.3
Total	<u>4,193,516</u>	<u>100.0</u>	<u>3,400,045</u>	<u>100.0</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(vi) *Credit quality of distressed debt assets classified as receivables and loans and advances to customers (Continued)*

(2) Impaired distressed debt assets classified as receivables and loans and advances to customers (Continued)

Distressed debt assets classified as receivables (Continued)

Company

Area	As at December 31			
	2017		2016	
	Gross amount	%	Gross amount	%
Pearl River Delta	1,415,632	33.5	1,486,432	43.6
Yangtze River Delta	1,105,172	26.2	428,608	12.5
Bohai Rim	855,889	20.3	184,512	5.4
Western Region	805,534	19.1	744,781	21.8
Northeastern Region	38,771	0.9	83,120	2.4
Central Region	—	—	488,331	14.3
Total	<u>4,220,998</u>	<u>100.0</u>	<u>3,415,784</u>	<u>100.0</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(vi) *Credit quality of distressed debt assets classified as receivables and loans and advances to customers (Continued)*

(2) Impaired distressed debt assets classified as receivables and loans and advances to customers (Continued)

Loans and advances to customers

Group

Area	As at December 31			
	2017		2016	
	Gross amount	%	Gross amount	%
Western Region	3,383,258	51.6	2,232,005	47.4
Pearl River Delta	1,178,448	18.0	533,370	11.3
Northeastern Region	580,467	8.9	531,889	11.2
Central Region	528,658	8.1	611,290	13.0
Yangtze River Delta	488,142	7.4	466,435	9.9
Overseas	239,192	3.6	130,213	2.8
Bohai Rim	155,261	2.4	203,851	4.4
Total	<u>6,553,426</u>	<u>100.0</u>	<u>4,709,053</u>	<u>100.0</u>

(3) Debt restructuring

As at December 31, 2017, the Group's balance of restructured distressed debt assets classified as receivables was RMB199 million (December 31, 2016: RMB1,206 million).

As at December 31, 2017, the Group's net carrying amount of loans and advances to customer was RMB8 million (December 31, 2016: RMB2 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(vii) Credit quality of investment products

The tables below set forth the credit quality of investment products, including debt securities, wealth management products and trust products.

Group

	As at December 31	
	2017	2016
Neither past due nor impaired ⁽¹⁾	188,549,668	145,908,012
Past due but not impaired ⁽²⁾	43,181	—
Impaired ⁽³⁾	6,180,098	8,375,046
Subtotal	194,772,947	154,283,058
Allowance for impairment losses	(1,939,307)	(1,928,170)
Net carrying amounts	192,833,640	152,354,888

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(vii) Credit quality of investment products

Company

	As at December 31	
	2017	2016
Neither past due nor impaired ⁽¹⁾	32,121,911	22,510,266
Past due but not impaired	43,181	—
Impaired	123,332	606,406
	<u>32,288,424</u>	<u>23,116,672</u>
Subtotal		
	<u>(94,773)</u>	<u>(144,991)</u>
Allowance for impairment losses		
Net carrying amounts	<u>32,193,651</u>	<u>22,971,681</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(vii) Credit quality of investment products (Continued)

(1) Investment products neither past due nor impaired

	<u>Group</u>									
	As at December 31, 2017					As at December 31, 2016				
	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Held-to- maturity investments	Financial assets classified as receivables	Total	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Held-to- maturity investments	Financial assets classified as receivables	Total
Government bonds	3,302,452	29,257,893	5,775,745	-	38,336,090	4,606,825	14,148,459	6,185,527	-	24,940,811
Public sector and										
quasi-government bonds	395,232	8,212,728	3,386,079	-	11,994,039	1,688,552	10,258,889	4,655,865	-	16,603,306
Financial institution bonds	-	18,783,457	3,087,182	-	21,870,639	-	16,639,182	1,009,626	1,109,478	18,758,286
Corporate bonds	9,701,003	9,469,133	978,357	-	20,148,493	8,552,309	12,472,526	784,603	-	21,809,438
Trust products and rights to										
trust assets	-	19,051,684	-	15,215,202	34,266,886	-	14,399,875	-	6,765,733	21,165,608
Wealth management products	1,878,340	11,820,000	-	-	13,698,340	3,984,868	6,500,000	-	-	10,484,868
Certificates of deposit	-	27,929,436	-	-	27,929,436	-	14,235,718	-	-	14,235,718
Asset management plans	411,074	13,048,760	-	1,672,000	15,131,834	-	10,660,300	-	2,182,000	12,842,300
Asset-backed securities	54,636	1,040,845	-	-	1,095,481	58,004	1,066,322	-	-	1,124,326
Structured debt arrangements	-	-	-	219,438	219,438	-	-	-	1,231,955	1,231,955
Derivative financial assets	381,271	-	-	-	381,271	820,826	-	-	-	820,826
Embedded derivatives debts	404,298	-	-	-	404,298	171,691	-	-	-	171,691
Interbank negotiate certificate										
of deposit	1,337,269	-	-	-	1,337,269	-	-	-	-	-
Others	1,204,616	-	-	531,538	1,736,154	882,758	-	-	836,121	1,718,879
Subtotal	19,070,191	138,613,936	13,227,363	17,638,178	188,549,668	20,765,833	100,381,271	12,635,621	12,125,287	145,908,012
Allowance for impairment										
losses	-	(48,205)	-	(23,019)	(71,224)	-	(4,997)	-	(23,709)	(28,706)
Total	19,070,191	138,565,731	13,227,363	17,615,159	188,478,444	20,765,833	100,376,274	12,635,621	12,101,578	145,879,306

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(vii) Credit quality of investment products (Continued)

(1) Investment products neither past due nor impaired (Continued)

	<u>Company</u>									
	As at December 31, 2017					As at December 31, 2016				
	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Held-to- maturity investments	Financial assets classified as receivables	Total	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Held-to- maturity investments	Financial assets classified as receivables	Total
Public sector and										
quasi-government bonds	-	131,831	-	-	131,831	-	1,316,070	-	-	1,316,070
Financial institution bonds	-	369,073	-	-	369,073	-	99,077	-	-	99,077
Corporate bonds	250,000	-	-	-	250,000	-	-	-	-	-
Trust plans and rights to trust										
assets	-	11,371,139	-	-	11,371,139	-	11,208,629	-	-	11,208,629
Wealth management products	-	2,000,000	-	-	2,000,000	-	-	-	-	-
Certificates of deposit	-	13,236,083	-	-	13,236,083	-	1,543,557	-	-	1,543,557
Asset management plans	-	2,787,016	-	-	2,787,016	-	4,813,057	-	-	4,813,057
Asset-backed securities	-	789,800	-	-	789,800	-	889,750	-	-	889,750
Structured debt arrangements	-	-	-	219,438	219,438	-	-	-	1,231,955	1,231,955
Others	435,993	-	-	531,538	967,531	572,050	-	-	836,121	1,408,171
Subtotal	685,993	30,684,942	-	750,976	32,121,911	572,050	19,870,140	-	2,068,076	22,510,266
Allowance for impairment										
losses	-	(40,974)	-	(16,799)	(57,773)	-	-	-	(23,709)	(23,709)
Total	685,993	30,643,968	-	734,177	32,064,138	572,050	19,870,140	-	2,044,367	22,486,557

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(vii) Credit quality of investment products (Continued)

(2) Financial assets classified as receivables past due but not impaired

Investment products past due but not impaired of the Group were 43.18 million at December 31, 2017 and were nil at December 31, 2016.

(3) Impaired investment products

The impaired investment products for the Group were structured debt arrangements, trust products, asset management plans, etc. with gross amounts of RMB6,180.10 million and RMB8,375.05 million as at December 31, 2017 and 2016. The Group made allowances for impairment losses of RMB1,868.08 million and RMB1,899.46 million as at December 31, 2017 and 2016, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(viii) Investment products analyzed by credit rating from reputable rating agencies

	Group											
	As at December 31, 2017						As at December 31, 2016					
	AAA	AA	A	Below A	Unrated	Total	AAA	AA	A	Below A	Unrated	Total
Government bonds	2,951,305	23,643,036	-	-	11,717,728	38,312,069	6,264,381	13,815,336	104,876	-	4,756,218	24,940,811
Public sector and quasi-government bonds	29,256	-	-	-	11,364,688	11,393,944	1,996,778	2,212,477	-	-	12,394,051	16,603,306
Financial institution bonds	2,608,318	1,270,249	4,861,164	1,000,384	12,431,526	22,171,641	3,044,365	409,312	13,536,376	1,531,438	236,795	18,758,286
Corporate bonds	4,852,206	4,531,709	1,546,453	1,147,704	8,395,647	20,473,719	8,137,816	5,760,682	2,549,192	3,650,947	1,801,476	21,900,113
Trust products and rights to trust assets	-	-	-	-	35,882,492	35,882,492	-	-	-	-	23,364,791	23,364,791
Wealth management products	-	-	-	-	13,698,340	13,698,340	-	-	-	-	10,484,868	10,484,868
Certificates of deposit	13,236,083	4,041,124	3,416,772	2,809,711	5,763,015	29,266,705	1,543,557	-	6,465,226	5,239,220	987,715	14,235,718
Asset management plans	-	-	-	-	17,645,605	17,645,605	-	-	-	-	16,542,899	16,542,899
Asset-backed securities	24,324	-	-	-	1,061,488	1,085,812	131,442	34,800	-	-	953,087	1,119,329
Structured debt arrangements	-	-	-	-	348,951	348,951	-	-	-	-	1,231,955	1,231,955
Derivative financial assets	-	-	-	-	381,271	381,271	-	-	-	-	820,826	820,826
Embedded derivatives debts	-	-	-	-	404,298	404,298	-	-	-	-	171,691	171,691
Others	-	-	-	-	1,768,793	1,768,793	-	-	-	-	2,180,295	2,180,295
Total	23,701,492	33,486,118	9,824,389	4,957,799	120,863,842	192,833,640	21,118,339	22,232,607	22,655,670	10,421,605	75,926,667	152,354,888

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.1 Credit Risk (Continued)

(viii) Investment products analyzed by credit rating from reputable rating agencies
(Continued)

Company

	As at December 31, 2017						As at December 31, 2016					
	AAA	AA	A	Below A	Unrated	Total	AAA	AA	A	Below A	Unrated	Total
Public sector and quasi-government bonds	-	-	-	-	131,831	131,831	-	-	-	-	1,316,070	1,316,070
Financial institution bonds	369,073	-	-	-	-	369,073	-	-	-	-	-	-
Corporate bonds	-	-	-	-	250,000	250,000	99,077	-	-	-	-	99,077
Trust products and rights to trust assets	-	-	-	-	11,360,881	11,360,881	-	-	-	-	11,208,629	11,208,629
Wealth management products	-	-	-	-	2,000,000	2,000,000	-	-	-	-	-	-
Certificates of deposit	13,236,083	-	-	-	-	13,236,083	1,543,557	-	-	-	-	1,543,557
Asset management plans	-	-	-	-	2,758,738	2,758,738	-	-	-	-	4,813,057	4,813,057
Asset-backed securities	24,324	-	-	-	763,038	787,362	131,442	34,800	-	-	723,508	889,750
Structured debt arrangements	-	-	-	-	348,951	348,951	-	-	-	-	1,231,955	1,231,955
Others	-	-	-	-	950,732	950,732	-	-	-	-	1,869,586	1,869,586
Total	13,629,480	-	-	-	18,564,171	32,193,651	1,774,076	34,800	-	-	21,162,805	22,971,681

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.2 Market risk

Market risk is the risk of loss, in respect of the Group's on- and off-balance sheet activities, arising from movements in market rates including interest rates, foreign exchange rates, and commodity and equity prices.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises from the mismatches between contractual maturities or repricing dates of interest-generating assets and interest-bearing liabilities.

The risk of fair value and cash flow changes due to interest rate changes is mainly related to the Group's fixed rate and floating rate financial instruments.

The Group manages its interest rate risk by:

- minimizing the mismatches between contractual maturities or repricing dates of interest-generating assets and interest-bearing liabilities;
- strictly controlling the length of the debt restructuring term and strengthening the matching of the Group's liabilities with the terms and interest rate structure of the restructured distressed assets; and
- regularly performing quantitative analysis, including periodic sensitivity analysis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.2 Market risk (Continued)

Interest rate risk (Continued)

At the end of each reporting period, the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing date and maturity date are as follows:

Group	As at December 31, 2017					Non-interest-bearing	Total
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years		
Cash and balances with central banks	9,394,636	-	-	-	-	12,116,444	21,511,080
Deposits with banks and financial institutions	43,287,837	9,339,641	1,261,540	5,830	-	534,367	54,429,215
Placements with banks and financial institutions	13,938,792	1,155,191	3,066,427	-	-	-	18,160,410
Deposits with exchanges and others	123,183	-	-	-	-	1,001,712	1,124,895
Financial assets at fair value through profit or loss	1,943,823	1,366,629	4,748,115	8,386,239	1,472,652	195,878,401	213,795,859
Financial assets classified as receivables	10,487,110	13,720,295	79,481,332	130,338,134	200,000	-	234,226,871
Loans and advances to customers	161,169,370	54,425,187	47,656,663	48,041,435	724,865	100,000	312,117,520
Accounts receivable	70,249	-	-	445,524	-	3,213,362	3,729,135
Financial assets held under resale agreements	37,696,985	14,157,292	6,942,986	1,312,125	-	-	60,109,388
Available-for-sale financial assets	1,633,901	23,968,571	12,988,810	66,410,012	51,685,327	116,496,071	273,182,692
Held-to-maturity investments	-	349,595	2,727,954	6,977,430	3,172,384	-	13,227,363
Other financial assets	942,900	612,939	4,569,569	3,472,993	9,944	16,514,619	26,122,964
Total financial assets	280,688,786	119,095,340	163,443,396	265,389,722	57,265,172	345,854,976	1,231,737,392
Borrowings from central bank	-	-	-	-	-	(986,058)	(986,058)
Accounts payable to brokerage clients	(9,528,230)	-	-	-	-	(2,865,583)	(12,393,813)
Due to customers	(138,405,656)	(40,879,749)	(33,396,868)	(5,588,268)	(85,006)	(7,865,239)	(226,220,786)
Deposits from banks and financial institutions	(8,329,502)	(4,825,000)	(3,850,684)	(2,080,000)	-	(174,080)	(19,259,266)
Placements from banks and financial institutions	(11,215,440)	(26,129)	(2,389,161)	(2,049,961)	(546,161)	(204,699)	(16,431,551)
Financial liabilities at fair value through profit or loss	(1,749,557)	(1,860,023)	(22,902)	-	-	(3,161,647)	(6,794,129)
Financial assets sold under repurchase agreements	(5,006,524)	(623,743)	-	(1,000,000)	-	-	(6,630,267)
Investment contract liabilities for policyholders	-	-	(71)	(6,179)	(19,955,119)	-	(19,961,369)
Borrowings	(4,105,511)	(17,433,702)	(299,100,711)	(241,240,631)	(18,471,515)	-	(580,352,070)
Bonds issued	-	(6,401,801)	(17,453,372)	(109,885,151)	(68,630,742)	(4,111,578)	(206,482,644)
Accounts payable	-	-	(251)	-	-	(3,220,688)	(3,220,939)
Other financial liabilities	(350,257)	(74)	(1,189,757)	(2,976,396)	-	(60,953,575)	(65,470,059)
Total financial liabilities	(178,690,677)	(72,050,221)	(357,403,777)	(364,826,586)	(107,688,543)	(83,543,147)	(1,164,202,951)
Interest rate gap	101,998,109	47,045,119	(193,960,381)	(99,436,864)	(50,423,371)	262,311,829	67,534,441

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.2 Market risk (Continued)

Interest rate risk (Continued)

Group (Continued)

	As at December 31, 2016					Non-interest-bearing	Total
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years		
Cash and balances with central banks	14,553,479	–	–	–	–	2,814,486	17,367,965
Deposits with banks and financial institutions	47,641,532	18,298,245	9,753,989	107,500	–	–	75,801,266
Placements with banks and financial institutions	17,716,177	2,407,863	6,054,542	99,000	–	–	26,277,582
Deposits with exchanges and others	804,301	–	–	–	–	1,243,266	2,047,567
Financial assets at fair value through profit or loss	1,753,078	2,053,392	1,406,929	8,496,950	2,683,506	132,651,641	149,045,496
Financial assets classified as receivables	12,424,486	11,359,222	59,864,417	114,939,101	200,000	–	198,787,226
Loans and advances to customers	161,506,423	27,999,794	43,168,254	61,180,374	1,036,828	44,918	294,936,591
Accounts receivable	112,239	2,688	2,481,025	–	–	926,162	3,522,114
Financial assets held under resale agreements	37,231,096	867,046	1,665,048	2,210,772	–	–	41,973,962
Available-for-sale financial assets	13,984,960	13,639,622	19,154,083	53,582,197	9,245,342	102,889,682	212,495,886
Held-to-maturity investments	–	303,752	843,358	7,587,792	3,900,719	–	12,635,621
Other financial assets	611,899	26,394	664,427	632,475	–	7,154,635	9,089,830
Total financial assets	308,339,670	76,958,018	145,056,072	248,836,161	17,066,395	247,724,790	1,043,981,106
Borrowings from central bank	–	–	–	–	–	(986,058)	(986,058)
Accounts payable to brokerage clients	(13,475,987)	–	–	–	–	(2,796,108)	(16,272,095)
Due to customers	(132,829,681)	(34,782,072)	(35,900,009)	(1,117,277)	–	–	(204,629,039)
Deposits from banks and financial institutions	(10,804,792)	–	(2,500,000)	–	–	–	(13,304,792)
Placements from banks and financial institutions	(7,734,871)	(6,922,015)	(8,924,295)	–	–	–	(23,581,181)
Financial liabilities at fair value through profit or loss	(1,682,125)	(730,081)	(471,208)	–	–	(3,628,277)	(6,511,691)
Financial assets sold under repurchase agreements	(7,072,213)	(800,000)	–	–	–	–	(7,872,213)
Investment contract liabilities for policyholders	(27,193,179)	–	–	–	–	–	(27,193,179)
Borrowings	(3,521,675)	(17,260,831)	(273,714,378)	(132,363,658)	(23,654,221)	–	(450,514,763)
Bonds issued	–	(900,000)	(17,571,303)	(102,521,252)	(28,671,856)	(2,833,149)	(152,497,560)
Accounts payable	(345,610)	(162)	–	–	–	(2,708,088)	(3,053,860)
Other financial liabilities	–	–	(1,000,000)	(499,275)	(4,902,757)	(21,643,784)	(28,045,816)
Total financial liabilities	(204,660,133)	(61,395,161)	(340,081,193)	(236,501,462)	(57,228,834)	(34,595,464)	(934,462,247)
Interest rate gap	103,679,537	15,562,857	(195,025,121)	12,334,699	(40,162,439)	213,129,326	109,518,859

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.2 Market risk (Continued)

Interest rate risk (Continued)

Company

	As at December 31, 2017					Non-interest-bearing	Total
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years		
Cash and balances with central banks	2,364	-	-	-	-	608	2,972
Deposits with banks and financial institutions	8,108,564	2,960,260	500,000	-	-	-	11,568,824
Financial assets at fair value through profit or loss	-	-	250,000	-	-	157,021,136	157,271,136
Financial assets classified as receivables	9,187,852	11,981,295	75,073,450	119,804,035	-	-	216,046,632
Accounts receivable	70,249	-	-	445,524	-	1,557,542	2,073,315
Financial assets held under resale agreements	18,163,703	12,710,930	2,994,907	-	-	-	33,869,540
Available-for-sale financial assets	808,489	10,739,359	5,266,744	33,824,913	5,263,965	62,469,754	118,373,224
Amounts due from subsidiaries	1,532,998	12,538,734	16,763,671	2,470,614	-	762,253	34,068,270
Other financial assets	161,576	24,887	217,399	-	-	7,377,117	7,780,979
Total financial assets	38,035,795	50,955,465	101,066,171	156,545,086	5,263,965	229,188,410	581,054,892
Borrowings from central bank	-	-	-	-	-	(986,058)	(986,058)
Financial liabilities at fair value through profit or loss	-	-	-	-	-	(3,296,750)	(3,296,750)
Borrowings	(1,500,000)	(8,500,000)	(256,800,000)	(201,999,900)	-	-	(468,799,900)
Bonds issued	-	(939,614)	(14,331,202)	(41,021,761)	(33,797,158)	(2,219,859)	(92,309,594)
Accounts payable	-	-	-	-	-	(198,820)	(198,820)
Other financial liabilities	-	-	-	-	-	(11,383,307)	(11,383,307)
Total financial liabilities	(1,500,000)	(9,439,614)	(271,131,202)	(243,021,661)	(33,797,158)	(18,084,794)	(576,974,429)
Interest rate gap	36,535,795	41,515,851	(170,065,031)	(86,476,575)	(28,533,193)	211,103,616	4,080,463

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.2 Market risk (Continued)

Interest rate risk (Continued)

Company (Continued)

	As at December 31, 2016					Non-interest-bearing	Total
	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years		
Cash and balances with central banks	2,347	–	–	–	–	542	2,889
Deposits with banks and financial institutions	12,325,021	5,000,000	–	–	–	–	17,325,021
Placements with banks and financial institutions	3,000,000	–	–	–	–	–	3,000,000
Financial assets at fair value through profit or loss	–	–	–	–	–	95,135,859	95,135,859
Financial assets classified as receivables	12,212,534	11,156,596	56,626,034	107,008,122	–	–	187,003,286
Accounts receivable	–	–	1,988,471	–	–	88,576	2,077,047
Financial assets held under resale agreements	32,125,015	791,000	–	–	–	–	32,916,015
Available-for-sale financial assets	1,672,597	–	100,000	22,109,550	2,861,400	62,249,584	88,993,131
Amounts due from subsidiaries	12,663,846	9,761,187	3,468,500	–	–	156,783	26,050,316
Other financial assets	–	–	–	–	–	3,337,396	3,337,396
Total financial assets	74,001,360	26,708,783	62,183,005	129,117,672	2,861,400	160,968,740	455,840,960
Borrowings from central bank	–	–	–	–	–	(986,058)	(986,058)
Placements from banks and financial institutions	–	(1,900,000)	–	–	–	–	(1,900,000)
Financial liabilities at fair value through profit or loss	–	–	–	–	–	(3,244,454)	(3,244,454)
Borrowings	–	(10,000,000)	(242,063,000)	(97,500,000)	–	–	(349,563,000)
Bonds issued	–	–	(14,980,928)	(45,790,764)	(9,939,111)	(1,558,404)	(72,269,207)
Accounts payable	–	–	–	–	–	(1,701)	(1,701)
Other financial liabilities	–	–	–	–	–	(4,190,875)	(4,190,875)
Total financial liabilities	–	(11,900,000)	(257,043,928)	(143,290,764)	(9,939,111)	(9,981,492)	(432,155,295)
Interest rate gap	74,001,360	14,808,783	(194,860,923)	(14,173,092)	(7,077,711)	150,987,248	23,685,665

The following tables illustrate the potential impact of a parallel upward or downward shift of 100 basis points in the yield rates of all financial instruments on the Group's profit before tax and other comprehensive income, based on the Group's positions of interest-generating assets and interest-bearing liabilities at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.2 Market risk (Continued)

Interest rate risk (Continued)

Interest rate sensitivity analysis

Group

	As at December 31			
	2017		2016	
	Profit	Other	Profit	Other
	before tax	comprehensive income	before tax	comprehensive income
+ 100 basis points	(642,173)	(1,068,623)	391,942	(686,988)
- 100 basis points	<u>642,173</u>	<u>1,112,314</u>	<u>(391,942)</u>	<u>721,250</u>

Company

	As at December 31			
	2017		2016	
	Profit	Other	Profit	Other
	before tax	comprehensive income	before tax	comprehensive income
+ 100 basis points	58,356	(111,801)	101,858	(63,759)
- 100 basis points	<u>(58,356)</u>	<u>117,444</u>	<u>(101,858)</u>	<u>67,882</u>

Foreign exchange risk

Foreign exchange risk is the risk of loss due to changes in currency exchange rates. The Group takes on exposure to the effects of fluctuations in the prevailing foreign exchange rates on its financial position and operating performance. The Group conducts the majority of its businesses in RMB, with certain foreign transactions in United States dollar (“USD”), Hong Kong dollar (“HKD”) and other currencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.2 Market risk (Continued)

Foreign exchange risk (Continued)

At the end of each reporting period, a breakdown of the assets and liabilities analyzed by currency is as follows:

Group

	RMB	As at December 31, 2017			Total (RMB equivalent)
		USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	
Cash and balances with central banks	20,270,703	597,760	619,252	23,365	21,511,080
Deposits with banks and financial institutions	3,519,482	49,205,154	1,058,427	646,152	54,429,215
Placements with banks and financial institutions	3,552,464	9,816,038	3,799,211	992,697	18,160,410
Deposits with exchanges and others	1,121,877	1,764	1,254	–	1,124,895
Financial assets at fair value through profit or loss	180,654,715	25,265,814	6,780,485	1,094,845	213,795,859
Financial assets classified as receivables	234,226,871	–	–	–	234,226,871
Loans and advances to customers	164,361,016	53,617,513	89,396,880	4,742,111	312,117,520
Accounts receivable	3,189,676	191,838	345,681	1,940	3,729,135
Financial assets held under resale agreements	60,109,388	–	–	–	60,109,388
Available-for-sale financial assets	218,053,566	19,071,952	32,684,916	3,372,258	273,182,692
Held-to-maturity investments	11,264,267	1,767,191	–	195,905	13,227,363
Other financial assets	21,882,318	831,214	3,335,780	73,652	26,122,964
Total financial assets	<u>922,206,343</u>	<u>160,366,238</u>	<u>138,021,886</u>	<u>11,142,925</u>	<u>1,231,737,392</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.2 Market risk (Continued)

Foreign exchange risk (Continued)

Group (Continued)

	As at December 31, 2017				Total (RMB equivalent)
	RMB	USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	
Borrowings from central bank	(986,058)	–	–	–	(986,058)
Accounts payable to brokerage clients	(12,253,095)	(101,459)	(39,259)	–	(12,393,813)
Due to customers	(74,240,639)	(42,145,272)	(105,030,544)	(4,804,331)	(226,220,786)
Deposits from banks and financial institutions	(17,643,409)	(1,367,661)	(248,193)	(3)	(19,259,266)
Placements from banks and financial institutions	(5,990,001)	(4,123,492)	(2,212,654)	(4,105,404)	(16,431,551)
Financial liabilities at fair value through profit or loss	(3,052,938)	(64)	(3,741,127)	–	(6,794,129)
Financial assets sold under repurchase agreements	(5,542,000)	–	–	(1,088,267)	(6,630,267)
Investment contract liabilities for policy holders	(19,961,369)	–	–	–	(19,961,369)
Borrowings	(540,612,468)	(3,306,067)	(36,276,095)	(157,440)	(580,352,070)
Bonds issued	(150,369,567)	(56,038,312)	(74,765)	–	(206,482,644)
Accounts payable	(2,797,755)	(149,873)	(270,041)	(3,270)	(3,220,939)
Other financial liabilities	(60,607,649)	(3,090,369)	(1,756,787)	(15,254)	(65,470,059)
Total financial liabilities	<u>(894,056,948)</u>	<u>(110,322,569)</u>	<u>(149,649,465)</u>	<u>(10,173,969)</u>	<u>(1,164,202,951)</u>
Net exposure	<u>28,149,395</u>	<u>50,043,669</u>	<u>(11,627,579)</u>	<u>968,956</u>	<u>67,534,441</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.2 Market risk (Continued)

Foreign exchange risk (Continued)

Group (Continued)

	RMB	As at December 31, 2016			Total (RMB equivalent)
		USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	
Cash and balances with central banks	14,646,591	1,391,013	1,311,746	18,615	17,367,965
Deposits with banks and financial institutions	46,561,075	22,908,395	5,939,136	392,660	75,801,266
Placements with banks and financial institutions	6,572,517	16,840,455	2,325,726	538,884	26,277,582
Deposits with exchanges and others	2,035,526	1,873	10,168	–	2,047,567
Financial assets at fair value through profit or loss	120,471,248	18,995,456	9,578,792	–	149,045,496
Financial assets classified as receivables	198,787,226	–	–	–	198,787,226
Loans and advances to customers	168,103,431	50,069,410	73,919,266	2,844,484	294,936,591
Accounts receivable	3,223,299	145,765	153,044	6	3,522,114
Financial assets held under resale agreements	41,973,962	–	–	–	41,973,962
Available-for-sale financial assets	166,842,839	17,191,453	24,563,602	3,897,992	212,495,886
Held-to-maturity investments	12,116,326	330,400	–	188,895	12,635,621
Other financial assets	8,191,106	301,033	560,257	37,434	9,089,830
Total financial assets	<u>789,525,146</u>	<u>128,175,253</u>	<u>118,361,737</u>	<u>7,918,970</u>	<u>1,043,981,106</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.2 Market risk (Continued)

Foreign exchange risk (Continued)

Group (Continued)

	RMB	As at December 31, 2016			Total (RMB equivalent)
		USD (RMB equivalent)	HKD (RMB equivalent)	Other currencies (RMB equivalent)	
Borrowings from central bank	(986,058)	–	–	–	(986,058)
Accounts payable to brokerage clients	(16,116,459)	(115,914)	(39,722)	–	(16,272,095)
Due to customers	(72,336,868)	(37,637,210)	(89,453,757)	(5,201,204)	(204,629,039)
Deposits from banks and financial institutions	(12,175,447)	(490,145)	(639,194)	(6)	(13,304,792)
Placements from banks and financial institutions	(12,240,565)	(7,749,627)	(2,692,475)	(898,514)	(23,581,181)
Financial liabilities at fair value through profit or loss	(3,501,963)	(6,737)	(3,002,991)	–	(6,511,691)
Financial assets sold under repurchase agreements	(7,872,213)	–	–	–	(7,872,213)
Investment contract liabilities for policy holders	(27,193,179)	–	–	–	(27,193,179)
Borrowings	(411,203,222)	(4,573,716)	(33,296,131)	(1,441,694)	(450,514,763)
Bonds issued	(117,656,716)	(34,760,120)	(80,724)	–	(152,497,560)
Accounts payable	(2,857,002)	(156,233)	(39,863)	(762)	(3,053,860)
Other financial liabilities	(26,241,688)	(871,572)	(916,342)	(16,214)	(28,045,816)
Total financial liabilities	<u>(710,381,380)</u>	<u>(86,361,274)</u>	<u>(130,161,199)</u>	<u>(7,558,394)</u>	<u>(934,462,247)</u>
Net exposure	<u>79,143,766</u>	<u>41,813,979</u>	<u>(11,799,462)</u>	<u>360,576</u>	<u>109,518,859</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.2 Market risk (Continued)

Foreign exchange risk (Continued)

The tables below indicate the potential effect on profit before tax of a 5% appreciation or depreciation of RMB spot and forward exchange rate against all other currencies.

Group

	As at December 31	
	2017	2016
5% appreciation	(1,969,252)	(1,518,755)
5% depreciation	<u>1,969,252</u>	<u>1,518,755</u>

As the Company's operations are mainly denominated in RMB, directors of the Company are of the view that the Company's foreign exchange risk is insignificant and therefore do not present such analysis.

Price risk

Certain financial assets such as held-for-trading financial assets and part of the available-for-sale financial assets are measured at their fair values at the end of each reporting periods. The Group is exposed to price risks that may cause losses to the Group as a result of changes in market prices.

The price risk of these financial assets may arise due to change in market price. This change may be caused by the factors relating to the financial instrument itself or the issuer, and it also may be caused by market factors.

The following tables illustrate the potential impact of an increase or decrease of 1 percent in price of financial assets at fair value through profit or loss and available-for-sale financial assets measured at fair value on profit before tax and equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.2 Market risk (Continued)

Price risk (Continued)

Group

	As at December 31			
	2017		2016	
	Profit before tax	Equity	Profit before tax	Equity
+1 percent	2,137,959	2,331,210	1,490,455	1,707,094
-1 percent	<u>(2,137,959)</u>	<u>(2,331,210)</u>	<u>(1,490,455)</u>	<u>(1,707,094)</u>

75.3 Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flows or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk by:

- optimizing assets and liabilities structure;
- implementing a centralized liquidity management system by pooling Group-wide funds and maintaining an efficient internal fund transfer mechanism within the Group; and
- regularly performing quantitative analysis.

The tables below present the cash flows of non-derivative financial assets and financial liabilities by remaining contractual maturity at the end of each reporting period. The amounts disclosed in the tables are the undiscounted contractual cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.3 Liquidity risk (Continued)

Group

	Past due/ undated	On demand	Less than 1 month	As at December 31, 2017				Total
				1-3 months	3-12 months	1-5 years	Over 5 years	
Cash and balances with central banks	11,541,959	9,969,121	-	-	-	-	-	21,511,080
Deposits with banks and financial institutions	138	35,749,394	8,086,985	9,413,709	1,346,106	6,106	-	54,602,438
Placements with banks and financial institutions	-	-	14,034,392	1,163,114	3,087,458	-	-	18,284,964
Deposits with exchanges and others	1,124,895	-	-	-	-	-	-	1,124,895
Financial assets at fair value through profit or loss	188,654,657	6,603,660	2,021,004	1,537,094	5,055,642	9,892,305	2,493,272	216,257,634
Financial assets classified as receivables	8,771,994	-	4,368,970	15,057,563	86,331,325	169,328,506	221,285	284,079,643
Loans and advances to customers	7,369,219	15,772,098	11,527,289	18,360,293	88,174,902	161,249,943	35,768,522	338,222,266
Accounts receivable	517,821	953,540	86,385	236,019	439,700	1,541,473	-	3,774,938
Financial assets held under resale agreements	-	-	37,812,582	14,317,491	7,186,375	1,554,271	-	60,870,719
Available-for-sale financial assets	76,104,457	2,647,814	3,952,256	24,363,486	19,315,110	94,529,366	60,968,988	281,881,477
Held-to-maturity investments	-	-	3,545	413,482	3,069,198	7,979,130	4,324,267	15,789,622
Other financial assets	2,826,889	4,494,160	4,497,672	302,629	3,976,386	6,056,986	189,808	22,344,530
Total financial assets	296,912,029	76,189,787	86,391,080	85,164,880	217,982,202	452,138,086	103,966,142	1,318,744,206
Borrowings from central bank	(986,058)	-	-	-	-	-	-	(986,058)
Accounts payable to brokerage clients	-	(12,394,739)	-	-	-	-	-	(12,394,739)
Due to customers	-	(90,809,678)	(56,833,415)	(40,886,823)	(31,542,756)	(6,872,227)	(85,268)	(227,030,167)
Deposits from banks and financial institutions	-	(2,386,576)	(5,717,357)	(5,225,605)	(4,058,995)	(2,268,095)	(15,011)	(19,671,639)
Placements from banks and financial institutions	-	(204,699)	(11,237,809)	(26,185)	(2,392,774)	(2,062,794)	(546,161)	(16,470,422)
Financial liabilities at fair value through profit or loss	-	(39,268)	(1,760,555)	(1,910,913)	(220,770)	(2,865,054)	-	(6,796,560)
Financial assets sold under repurchase agreements	-	-	(4,545,021)	(1,088,267)	-	(1,110,007)	-	(6,743,295)
Investment contract liabilities for policy holders	-	-	-	-	(71)	(6,179)	(19,955,119)	(19,961,369)
Borrowings	-	-	(4,833,009)	(27,785,528)	(325,999,779)	(263,749,655)	(19,143,835)	(641,511,806)
Bonds issued	-	-	(267,511)	(7,416,090)	(25,521,922)	(114,476,347)	(97,960,078)	(245,641,948)
Accounts payable	(2,541,680)	(297,242)	(182,946)	-	(199,071)	-	-	(3,220,939)
Other financial liabilities	(23,070,449)	(24,665,139)	(1,123,538)	(196,377)	(2,591,639)	(9,473,149)	(324,300)	(61,444,591)
Total financial liabilities	(26,598,187)	(130,797,341)	(86,501,161)	(84,535,788)	(392,527,777)	(402,883,507)	(138,029,772)	(1,261,873,533)
Net position	270,313,842	(54,607,554)	(110,081)	629,092	(174,545,575)	49,254,579	(34,063,630)	56,870,673

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.3 Liquidity risk (Continued)

Group (Continued)

	As at December 31, 2016							
	Past due/ undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances with central banks	12,934,023	3,451,887	14,750	59,260	908,045	–	–	17,367,965
Deposits with banks and financial institutions	16,023,682	11,709,129	19,926,476	18,358,107	9,775,833	107,951	–	75,901,178
Placements with banks and financial institutions	–	–	17,754,307	2,428,011	6,155,932	108,457	–	26,446,707
Deposits with exchanges and others	2,047,567	–	–	–	–	–	–	2,047,567
Financial assets at fair value through profit or loss	123,718,809	9,134,863	1,474,197	2,300,332	2,059,183	11,927,254	3,151,675	153,766,313
Financial assets classified as receivables	9,347,123	–	5,488,734	12,140,256	67,149,728	147,753,000	522,325	242,401,166
Loans and advances to customers	8,693,452	7,105,843	9,032,019	21,228,256	69,101,370	188,878,324	45,250,879	349,290,143
Accounts receivable	891,794	168,658	84,512	2,688	2,518,037	–	–	3,665,689
Financial assets held under resale agreements	–	–	37,323,040	876,910	1,872,334	2,539,382	–	42,611,666
Available-for-sale financial assets	75,598,996	2,250,404	12,679,581	14,283,236	27,462,908	91,277,898	8,692,504	232,245,527
Held-to-maturity investments	–	–	–	303,752	2,382,656	8,918,999	4,033,399	15,638,806
Other financial assets	5,543	306,767	196,458	26,408	1,013,919	3,487,547	513,247	5,549,889
Total financial assets	249,260,989	34,127,551	103,974,074	72,007,216	190,399,945	454,998,812	62,164,029	1,166,932,616
Borrowings from central bank	(986,058)	–	–	–	–	–	–	(986,058)
Accounts payable to brokerage clients	–	(16,273,387)	–	–	–	–	–	(16,273,387)
Due to customers	–	(88,442,091)	(44,425,177)	(34,888,694)	(36,515,670)	(1,187,019)	–	(205,458,651)
Deposits from banks and financial institutions	–	(10,804,792)	–	–	(2,515,851)	–	–	(13,320,643)
Placements from banks and financial institutions	–	(48,291)	(7,752,425)	(6,983,685)	(9,014,220)	–	–	(23,798,621)
Financial liabilities at fair value through profit or loss	–	(99,249)	(1,709,191)	(854,714)	(952,531)	(2,899,175)	–	(6,514,860)
Financial assets sold under repurchase agreements	–	–	(7,110,096)	(810,098)	–	–	–	(7,920,194)
Investment contract liabilities for policy holders	–	–	–	–	(101)	(6,490)	(27,186,588)	(27,193,179)
Borrowings	–	–	(2,574,095)	(21,743,722)	(280,763,911)	(153,150,446)	(27,318,744)	(485,550,918)
Bonds issued	–	–	(358)	(1,597,879)	(23,741,687)	(98,197,442)	(54,862,370)	(178,399,736)
Accounts payable	(2,677,382)	(183,047)	(193,269)	(162)	–	–	–	(3,053,860)
Other financial liabilities	(172,110)	(8,321,086)	(880,719)	(34,746)	(3,694,806)	(7,422,324)	(5,047,337)	(25,573,128)
Total financial liabilities	(3,835,550)	(124,171,943)	(64,645,330)	(66,913,700)	(357,198,777)	(262,862,896)	(114,415,039)	(994,043,235)
Net position	245,425,439	(90,044,392)	39,328,744	5,093,516	(166,798,832)	192,135,916	(52,251,010)	172,889,381

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.3 Liquidity risk (Continued)

Company

	As at December 31, 2017							Total
	Past due/ undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Cash and balances with central banks	-	2,972	-	-	-	-	-	2,972
Deposits with banks and financial institutions	-	8,108,564	-	2,979,507	505,404	-	-	11,593,475
Financial assets at fair value through profit or loss	157,021,136	-	-	-	1,250	270,500	-	157,292,886
Financial assets classified as receivables	7,485,521	-	4,368,970	12,731,789	81,459,062	151,618,556	-	257,663,898
Accounts receivable	70,249	199,153	18,525	236,000	53,864	1,541,327	-	2,119,118
Financial assets held under resale agreements	-	-	18,213,086	12,813,483	3,045,604	-	-	34,072,173
Available-for-sale financial assets	35,817,046	-	2,955,451	10,977,172	10,779,642	53,488,894	9,263,944	123,282,149
Amounts due from subsidiaries	-	2,295,251	-	12,565,433	16,881,523	2,571,360	-	34,313,567
Other financial assets	1,214,671	745,949	2,511,048	24,887	171,837	2,473,026	-	7,141,418
Total financial assets	201,608,623	11,351,889	28,067,080	52,328,271	112,898,186	211,963,663	9,263,944	627,481,656
Borrowings from central bank	(986,058)	-	-	-	-	-	-	(986,058)
Financial liabilities at fair value through profit or loss	-	-	-	-	-	(3,296,750)	-	(3,296,750)
Borrowings	-	-	(1,519,527)	(13,578,130)	(271,635,156)	(214,960,726)	-	(501,693,539)
Bonds issued	-	-	-	(1,054,412)	(18,275,742)	(41,645,594)	(52,560,000)	(113,535,748)
Accounts payable	-	-	-	-	(198,820)	-	-	(198,820)
Other financial liabilities	(288,728)	(5,952,360)	-	-	(408,131)	(2,663,131)	-	(9,312,350)
Total financial liabilities	(1,274,786)	(5,952,360)	(1,519,527)	(14,632,542)	(290,517,849)	(262,566,201)	(52,560,000)	(629,023,265)
Net position	200,333,837	5,399,529	26,547,553	37,695,729	(177,619,663)	(50,602,538)	(43,296,056)	(1,541,609)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.3 Liquidity risk (Continued)

Company (Continued)

	Past due/ undated	On demand	Less than 1 month	As at December 31, 2016				Total
				1-3 months	3-12 months	1-5 years	Over 5 years	
Cash and balances with central banks	–	2,889	–	–	–	–	–	2,889
Deposits with banks and financial institutions	–	11,825,021	500,894	5,030,441	–	–	–	17,356,356
Placements with banks and financial institutions	–	–	3,006,822	–	–	–	–	3,006,822
Financial assets at fair value through profit or loss	95,135,859	–	–	–	–	–	–	95,135,859
Financial assets classified as receivables	9,052,863	–	5,388,676	11,777,733	65,795,604	139,727,797	–	231,742,673
Accounts receivable	164,642	13,826	–	–	2,015,194	–	–	2,193,662
Financial assets held under resale agreements	–	–	32,197,099	795,467	–	–	–	32,992,566
Available-for-sale financial assets	46,060,535	–	2,605,382	247,695	1,292,501	40,048,549	4,570,547	94,825,209
Amounts due from subsidiaries	–	8,653,429	4,172,551	9,773,653	3,470,254	–	–	26,069,887
Other financial assets	–	160,602	35,520	–	201,300	2,573,671	–	2,971,093
Total financial assets	150,413,899	20,655,767	47,906,944	27,624,989	72,774,853	182,350,017	4,570,547	506,297,016
Borrowings from central bank	(986,058)	–	–	–	–	–	–	(986,058)
Placements from banks and financial institutions	–	–	–	(1,917,191)	–	–	–	(1,917,191)
Financial liabilities at fair value through profit or loss	–	–	–	–	–	(3,244,454)	–	(3,244,454)
Borrowings	–	–	–	(13,369,271)	(244,415,216)	(109,015,528)	–	(366,800,015)
Bonds issued	–	–	–	–	(18,177,500)	(42,610,000)	(23,690,000)	(84,477,500)
Accounts payable	(1,701)	–	–	–	–	–	–	(1,701)
Other financial liabilities	–	(703,385)	–	–	–	(2,573,671)	–	(3,277,056)
Total financial liabilities	(987,759)	(703,385)	–	(15,286,462)	(262,592,716)	(157,443,653)	(23,690,000)	(460,703,975)
Net position	149,426,140	19,952,382	47,906,944	12,338,527	(189,817,863)	24,906,364	(19,119,453)	45,593,041

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.3 Liquidity risk (Continued)

Analysis of the remaining maturity of the financial assets and financial liabilities

Group

	Past due/ undated	On demand	As at December 31, 2017					Total
			Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Cash and balances with central banks	11,541,959	9,969,121	-	-	-	-	-	21,511,080
Deposits with banks and financial institutions	138	35,741,956	8,080,110	9,339,641	1,261,540	5,830	-	54,429,215
Placements with banks and financial institutions	-	-	13,938,792	1,155,191	3,066,427	-	-	18,160,410
Deposits with exchanges and others	1,124,895	-	-	-	-	-	-	1,124,895
Financial assets at fair value through profit or loss	188,530,698	6,603,660	1,951,479	1,395,823	4,533,681	8,676,864	2,103,654	213,795,859
Financial assets classified as receivables	6,282,067	-	4,205,043	13,720,295	79,481,332	130,338,134	200,000	234,226,871
Loans and advances to customers	4,617,117	15,740,583	10,960,569	15,997,242	78,046,262	151,206,505	35,549,242	312,117,520
Accounts receivable	517,821	953,540	86,385	236,019	439,700	1,495,670	-	3,729,135
Financial assets held under resale agreements	-	-	37,696,985	14,157,292	6,942,986	1,312,125	-	60,109,388
Available-for-sale financial assets	75,603,351	2,647,675	3,905,294	23,968,571	18,276,631	90,209,992	58,571,178	273,182,692
Held-to-maturity investments	-	-	-	349,595	2,727,954	6,977,430	3,172,384	13,227,363
Other financial assets	3,522,349	4,525,528	4,958,594	1,213,425	5,530,439	6,181,590	191,039	26,122,964
Total financial assets	291,740,395	76,182,063	85,783,251	81,533,094	200,306,952	396,404,140	99,787,497	1,231,737,392
Borrowings from central bank	(986,058)	-	-	-	-	-	-	(986,058)
Accounts payable to brokerage clients	-	(12,393,813)	-	-	-	-	-	(12,393,813)
Due to customers	-	(90,386,583)	(56,757,005)	(40,761,212)	(31,379,866)	(6,851,115)	(85,005)	(226,220,786)
Deposits from banks and financial institutions	-	(2,386,576)	(5,717,006)	(5,225,000)	(3,850,684)	(2,080,000)	-	(19,259,266)
Placements from banks and financial institutions	-	(204,699)	(11,215,440)	(26,129)	(2,389,161)	(2,049,961)	(546,161)	(16,431,551)
Financial liabilities at fair value through profit or loss	-	(39,268)	(1,760,089)	(1,909,044)	(220,673)	(2,865,055)	-	(6,794,129)
Financial assets sold under repurchase agreements	-	-	(4,542,000)	(1,088,267)	-	(1,000,000)	-	(6,630,267)
Investment contract liabilities for policyholders	-	-	-	-	(71)	(6,179)	(19,955,119)	(19,961,369)
Borrowings	-	-	(4,105,511)	(17,433,702)	(299,100,711)	(241,240,631)	(18,471,515)	(580,352,070)
Bonds issued	-	-	-	(7,306,883)	(20,659,867)	(106,895,115)	(71,620,779)	(206,482,644)
Accounts payable	(2,541,680)	(297,242)	(182,946)	-	(199,071)	-	-	(3,220,939)
Other financial liabilities	(23,070,449)	(24,991,662)	(1,637,180)	(592,949)	(4,025,264)	(10,655,186)	(497,369)	(65,470,059)
Total financial liabilities	(26,598,187)	(130,699,843)	(85,917,177)	(74,343,186)	(361,825,368)	(373,643,242)	(111,175,948)	(1,164,202,951)
Net position	265,142,208	(54,517,780)	(133,926)	7,189,908	(161,518,416)	22,760,898	(11,388,451)	67,534,441

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.3 Liquidity risk (Continued)

*Analysis of the remaining maturity of the financial assets and financial liabilities
(Continued)*

Group (Continued)

	As at December 31, 2016							
	Past due/ undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances with central banks	12,934,023	3,451,887	14,750	59,260	908,045	–	–	17,367,965
Deposits with banks and financial institutions	16,023,682	11,702,902	19,914,948	18,298,245	9,753,989	107,500	–	75,801,266
Placements with banks and financial institutions	–	–	17,716,177	2,407,863	6,054,542	99,000	–	26,277,582
Deposits with exchanges and others	2,047,567	–	–	–	–	–	–	2,047,567
Financial assets at fair value through profit or loss	123,498,473	9,134,863	1,454,441	2,174,964	1,560,953	8,303,682	2,918,120	149,045,496
Financial assets classified as receivables	7,243,928	–	5,180,558	11,375,482	60,648,156	113,839,102	500,000	198,787,226
Loans and advances to customers	6,690,331	6,426,130	8,295,385	18,091,968	57,710,645	160,115,833	37,606,299	294,936,591
Accounts receivable	775,462	168,658	84,512	2,688	2,490,794	–	–	3,522,114
Financial assets held under resale agreements	–	–	37,231,096	867,046	1,665,048	2,210,772	–	41,973,962
Available-for-sale financial assets	75,579,791	2,250,404	12,503,870	13,907,607	23,038,958	77,451,799	7,763,457	212,495,886
Held-to-maturity investments	–	–	–	303,752	843,358	7,587,792	3,900,719	12,635,621
Other financial assets	230,882	342,050	990,337	763,416	2,259,474	3,902,015	601,656	9,089,830
Total financial assets	245,024,139	33,476,894	103,386,074	68,252,291	166,933,962	373,617,495	53,290,251	1,043,981,106
Borrowings from central bank	(986,058)	–	–	–	–	–	–	(986,058)
Accounts payable to brokerage clients	–	(16,272,095)	–	–	–	–	–	(16,272,095)
Due to customers	–	(88,442,091)	(44,387,589)	(34,782,072)	(35,900,010)	(1,117,277)	–	(204,629,039)
Deposits from banks and financial institutions	–	(10,804,792)	–	–	(2,500,000)	–	–	(13,304,792)
Placements from banks and financial institutions	–	(47,858)	(7,687,013)	(6,922,015)	(8,924,295)	–	–	(23,581,181)
Financial liabilities at fair value through profit or loss	–	(99,249)	(1,708,742)	(853,981)	(950,544)	(2,899,175)	–	(6,511,691)
Financial assets sold under repurchase agreements	–	–	(7,072,213)	(800,000)	–	–	–	(7,872,213)
Investment contract liabilities for policyholders	–	–	–	–	(101)	(6,490)	(27,186,588)	(27,193,179)
Borrowings	–	–	(2,180,955)	(17,072,831)	(268,303,778)	(139,302,978)	(23,654,221)	(450,514,763)
Bonds issued	–	–	(33,888)	(1,187,577)	(19,983,066)	(84,729,346)	(46,563,683)	(152,497,560)
Accounts payable	(2,677,382)	(183,047)	(193,269)	(162)	–	–	–	(3,053,860)
Other financial liabilities	(172,110)	(8,310,795)	(1,337,720)	(1,097,735)	(4,588,053)	(7,492,066)	(5,047,337)	(28,045,816)
Total financial liabilities	(3,835,550)	(124,159,927)	(64,601,389)	(62,716,373)	(341,149,847)	(235,547,332)	(102,451,829)	(934,462,247)
Net position	241,188,589	(90,683,033)	38,784,685	5,535,918	(174,215,885)	138,070,163	(49,161,578)	109,518,859

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.3 Liquidity risk (Continued)

*Analysis of the remaining maturity of the financial assets and financial liabilities
(Continued)*

Company

	Past due/ undated	On demand	Less than 1 month	As at December 31, 2017				Total
				1-3 months	3-12 months	1-5 years	Over 5 years	
Cash and balances with central banks	-	2,972	-	-	-	-	-	2,972
Deposits with banks and financial institutions	-	8,108,564	-	2,960,260	500,000	-	-	11,568,824
Financial assets at fair value through profit or loss	157,021,136	-	-	-	-	250,000	-	157,271,136
Financial assets classified as receivables	4,982,810	-	4,205,043	11,981,295	75,073,450	119,804,034	-	216,046,632
Accounts receivable	70,249	199,153	18,525	236,000	53,864	1,495,524	-	2,073,315
Financial assets held under resale agreements	-	-	18,163,703	12,710,930	2,994,907	-	-	33,869,540
Available-for-sale financial assets	35,183,871	-	2,908,489	10,739,359	10,217,824	50,578,504	8,745,177	118,373,224
Amounts due from subsidiaries	-	2,295,251	-	12,538,734	16,763,671	2,470,614	-	34,068,270
Other financial assets	1,214,671	745,949	2,564,664	183,109	398,169	2,674,417	-	7,780,979
Total financial assets	198,472,737	11,351,889	27,860,424	51,349,687	106,001,885	177,273,093	8,745,177	581,054,892
Borrowings from central bank	(986,058)	-	-	-	-	-	-	(986,058)
Financial liabilities at fair value through profit or loss	-	-	-	-	-	(3,296,750)	-	(3,296,750)
Borrowings	-	-	(1,500,000)	(8,500,000)	(256,800,000)	(201,999,900)	-	(468,799,900)
Bonds issued	-	-	-	(943,851)	(16,546,824)	(41,021,761)	(33,797,158)	(92,309,594)
Accounts payable	-	-	-	-	(198,820)	-	-	(198,820)
Other financial liabilities	(288,728)	(5,952,360)	(15,665)	(762,841)	(1,642,724)	(2,720,989)	-	(11,383,307)
Total financial liabilities	(1,274,786)	(5,952,360)	(1,515,665)	(10,206,692)	(275,188,368)	(249,039,400)	(33,797,158)	(576,974,429)
Net position	197,197,951	5,399,529	26,344,759	41,142,995	(169,186,483)	(71,766,307)	(25,051,981)	4,080,463

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.3 Liquidity risk (Continued)

*Analysis of the remaining maturity of the financial assets and financial liabilities
(Continued)*

Company (Continued)

	As at December 31, 2016							
	Past due/ undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances with central banks	-	2,889	-	-	-	-	-	2,889
Deposits with banks and financial institutions	-	11,825,021	500,000	5,000,000	-	-	-	17,325,021
Placements with banks and financial institutions	-	-	3,000,000	-	-	-	-	3,000,000
Financial assets at fair value through profit or loss	95,135,859	-	-	-	-	-	-	95,135,859
Financial assets classified as receivables	7,131,669	-	5,080,865	11,156,596	56,626,034	107,008,122	-	187,003,286
Accounts receivable	74,750	13,826	-	-	1,988,471	-	-	2,077,047
Financial assets held under resale agreements	-	-	32,125,015	791,000	-	-	-	32,916,015
Available-for-sale financial assets	46,060,535	-	2,472,597	-	246,842	35,827,245	4,385,912	88,993,131
Amounts due from subsidiaries	-	8,653,429	4,167,200	9,761,187	3,468,500	-	-	26,050,316
Other financial assets	52,070	160,602	230,440	76,022	244,591	2,573,671	-	3,337,396
Total financial assets	148,454,883	20,655,767	47,576,117	26,784,805	62,574,438	145,409,038	4,385,912	455,840,960
Borrowings from central bank	(986,058)	-	-	-	-	-	-	(986,058)
Placements from banks and financial institutions	-	-	-	(1,900,000)	-	-	-	(1,900,000)
Financial liabilities at fair value through profit or loss	-	-	-	-	-	(3,244,454)	-	(3,244,454)
Borrowings	-	-	-	(10,000,000)	(236,063,000)	(103,500,000)	-	(349,563,000)
Bonds issued	-	-	-	-	(16,539,332)	(35,852,699)	(19,877,176)	(72,269,207)
Accounts payable	(1,701)	-	-	-	-	-	-	(1,701)
Other financial liabilities	-	(703,385)	-	(675,621)	(238,198)	(2,573,671)	-	(4,190,875)
Total financial liabilities	(987,759)	(703,385)	-	(12,575,621)	(252,840,530)	(145,170,824)	(19,877,176)	(432,155,295)
Net position	147,467,124	19,952,382	47,576,117	14,209,184	(190,266,092)	238,214	(15,491,264)	23,685,665

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.4 Risk management of distressed assets

(i) Overview

Risk of distressed assets represents the potential loss that may arise from counterparty's failure to meet its obligation or changes in market conditions that lead to decline in asset value. Risk of distressed assets can also arise from operational failures due to unauthorized or inappropriate purchase, disposal or management activities, which result in the recoverable amount of the distressed assets lower than their carrying amounts.

The Group's risk of distressed assets arise from distressed debts which the Group initially classifies as financial assets at fair value through profit or loss, financial assets classified as receivables or equity instruments which the Group classifies as available-for-sale financial assets.

(ii) Risk management of distressed debt assets

The Group exercises standardized management procedures, including project initiation, due diligence investigation, design and approval of recovery plan and continuous monitoring and management. The Group enhances its risk management by strengthening investigation, review and approval procedures before the recovery of distressed assets, and monitoring measures after the recovery of distressed assets; enhancing risk mitigation effect through collateral; and continuously upgrading the management system of distressed assets.

Specifically, the risks to which distressed debts initially designated as financial assets at fair value through profit or loss mainly comprise valuation risk, legal title risk and to certain extent credit risk; while the risks to which distressed debts initially classified as receivables mainly comprise credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.4 Risk management of distressed assets (Continued)

(ii) Risk management of distressed debt assets (Continued)

(1) Valuation risk

Valuation risk is the risk of negative impact arising from the difference between actual results and value estimations that the Group would use in its management of distressed debt assets designated as at fair value through profit or loss, due to variance in factors such as future cash flows, collection period, discount rate, and disposal cost. Measures the Group takes to minimize the valuation risk include:

- Perform investigation strictly on the parties involved in the transaction (including the debtors and the guarantors), collateral provided, repayment sources, etc.; and
- Adopt conservative estimation on incurrence rate, discount rate, and disposal cost when performing valuation and review the difference between actual results and estimation after the completion of the disposal of distressed assets to improve the accuracy of future estimations.

(2) Legal title risk

Legal title risk is the risk of loss, arising from the decrease of recoverable amount when the legal rights to claim was partially or entirely lost due to inappropriate daily management of distressed assets such as expiry of claim period without taking proper legal actions on time. Measures the Group takes to minimize the legal title risk include:

- Set up alert management system to ensure the expiry of legal claim periods related to distressed assets is managed effectively;
- Set up periodic revisiting mechanism to interview debtors and monitor the conditions of collateral. Maintain regular investigation report properly to ensure the Group has access to the most updated information; and
- Set up reporting mechanism of significant events to ensure immediate recovery action be taken when certain risk elements emerge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.4 Risk management of distressed assets (Continued)

(ii) Risk management of distressed debt assets (Continued)

(3) Credit risk

In addition to distressed debt assets classified as receivables, certain distressed debt assets designated as at fair value through profit or loss may be subject to credit risk. Depending on the status of the obligor of distressed debt assets that are designated as at fair value through profit or loss, the Group may decide to pursue repayment from the obligor instead of disposing it to third party, credit risk arises in such situation. Credit risk represents the potential loss that may arise from the failure of a customer or counterparty's failure to meet its obligation. Characters of the credit risk management system of the Group include:

- Applying centralized policy and procedures throughout the Group;
- Enforce strict management system on the credentials of authorized supervisors; and
- Apply more stringent risk management rules and procedures, which include customer investigation, project evaluation, investigation and approval, project execution and post-event management for distressed assets classified as receivables.

Measures the Group takes to minimize the credit risk of distressed assets include:

- Manage the creditworthiness of counterparties using independent credit rating on the counterparties as reference;
- Select counterparties with appropriate creditworthiness and repayment capability; and
- Require counterparties to provide collateral which fully covers the credit exposure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.4 Risk management of distressed assets (Continued)

(iii) Risk management of assets obtained through debt-to-equity swap

Certain equity classified as available-for-sale investments were obtained through debt-to-equity swap. Risk related to these equity instruments is the risk of loss arising from movements in the value of equity shares due to price changes or decline in value of the investees.

The measures the Group takes to minimize the risk related to these equity instruments include:

- Strengthen continuous monitoring, analysis and management of equity values;
- Gain better understanding of macro-economic policies reinforced by the government and assess their impact on the equity investments; and
- Track the value changes dynamically and identify the appropriate timing for disposal to realize the maximum value of equity shares.

(iv) Determination of fair value

The Group determines the fair value of distressed debt assets classified as financial assets at fair value through profit or loss by using valuation techniques as these assets usually do not have an active market. Valuation techniques mainly include the discounted cash flow method with future cash flow estimated based on recent prices of similar transactions entered between willing and knowledgeable counterparties or realizable value of the underlying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.4 Risk management of distressed assets (Continued)

(v) Impairment assessment

The Group performs impairment assessment on distressed debt assets classified as receivables and equity investments classified as available-for-sale financial assets. Assessment procedures for distressed debt assets classified as receivables are similar to those set out in note VI.75.1.

For equity investments classified as available-for-sale financial assets that are measured at fair value, objective evidence of impairment includes significant or prolong decline in value of the investments.

For equity investments classified as available-for-sale financial assets that are measured at cost, objective evidence of impairment includes significant financial difficulty of the investee or counterparty or macroeconomic conditions that have a negative impact on the business operation of the investee.

75.5 Insurance risk

Insurance risk refers to the uncertainty of claim amount and timing arising from the unpredictable occurrence of the insured events. The major insurance risk to which the Group exposes to arises from the insurance payment exceeding the associated insurance or investment contract liabilities the Group recognizes. The uncertainty mainly arises from claim ratio, significance of claim, actual payment and the progress of long-term claims. Insurance risk management is one of the risk management objectives of the Group. Solvency is the primary indicator for the Group's insurance operation. The Group manages to provide sufficient insurance or investment contract liabilities to meet the obligation for insurance payment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.5 Insurance risk (Continued)

(i) Types of insurance risks

Insurance risks could arise in various situations, including the difference between the actual and estimated frequency of insurance event incurred (frequency risk), the difference between the actual and estimated cost of risk event (severity risk) and the change of the amount of obligations to policyholders at maturity of the insurance contract (developing risk).

The business scope of the Group's insurance operation includes long-term life and savings insurance and property and casualty insurance. For insurance contracts covering death benefits, factors like infectious disease, enormous changes of life style, and natural disaster could increase the overall claim ratio. Actual insurance payments and timing of the payments may be much higher or earlier than expected. For insurance contracts covering survival benefits, most important factors that may have impact on insurance risk are the continuous improvement of medical treatment level and social welfare which lead to longer lifetime. For property and casualty insurance contract, claims are usually affected by natural disaster and catastrophe.

Specifically, insurance risks comprise pricing risk, insurance reserve risk and reinsurance risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.5 Insurance risk (Continued)

(i) Types of insurance risks (Continued)

(1) Pricing risk

Pricing risk is the negative impact arising from the difference between the actual results and estimations used in the assumptions relating to mortality ratio, morbidity ratio, lapse rate, investment yield and cost ratio. Measures the Group undertakes to minimize the risks include:

- Use conservative incurrence rate and margin for product pricing; closely monitor the performance of the products after launched; adjust the product price based on the difference between actual results and pricing assumptions;
- Set up plan for strategic asset allocation and set pricing margin based on long-term investment yield associated with the strategic asset allocation; and
- Set up plan for business planning and expense budgeting and reinforce a rigorous expense management system.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.5 Insurance risk (Continued)

(i) Types of insurance risks (Continued)

(2) Insurance reserve risk

Insurance reserve risk is the risk that insurance reserve provided is not sufficient to fulfill the obligation for claims due to the use of inappropriate standard or method. Measures the Group takes to minimize the risk include:

- Calculate insurance reserve based on reasonable estimation of obligations to claims and perform adequacy testing at the end of each reporting period, that covers long-term life insurance contract liabilities and short-term insurance contract liabilities which include unearned premium reserves and claim reserves; and
- Assess solvency adequacy of the Group based on the solvency policy reserves and carry out supervisory measures on solvency.

(3) Reinsurance risk

Reinsurance risk is the risk of loss arising from unexpected severe insurance payment due to inappropriate reinsurance arrangement on the allocation of the risk ceded and retained. At the same time, the Group still has direct obligation to policyholders although there is reinsurance arrangement in place. Therefore, the Group is exposed to credit risks arising from the reinsurers' default on reinsurance contracts. Measures the Group takes to minimize the risk include:

- Allocate insurance risks ceded and retained appropriately and make adjustment dynamically according to the business development of the Group;
- Arrange reinsurance properly and select reinsurers with good creditworthiness to share risks. Selection criteria adopted by the Group include financial capability, service quality, reinsurance terms, claim handling efficiency and price, etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.5 Insurance risk (Continued)

(ii) Concentration of insurance risk

All insurance operations of the Group are located in the PRC. There are no significant differences among the regions where the Group underwrites insurance contracts.

- (1) The table below summarizes the Group's gross written premiums by major type of insurance contract:

	Year ended December 31			
	2017		2016	
	Amount	%	Amount	%
Life insurance	18,474,609	95.7	13,632,654	80.8
Motor vehicle insurance contract	703,479	3.6	2,761,469	16.3
General property insurance	45,740	0.2	158,288	0.9
Others	87,950	0.5	338,978	2.0
Total	<u>19,311,778</u>	<u>100.0</u>	<u>16,891,389</u>	<u>100.0</u>

- (2) The table below summarizes the Group's major type of insurance contract liability:

	Year ended December 31			
	2017		2016	
	Amount	%	Amount	%
Life insurance	38,966,618	98.5	30,893,150	99.0
Health insurance contract	547,758	1.4	237,005	0.8
Others	51,788	0.1	55,872	0.2
Total	<u>39,566,164</u>	<u>100.0</u>	<u>31,186,027</u>	<u>100.0</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

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VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.5 Insurance risk (Continued)

(iii) Key assumptions and sensitivity analysis

- (1) Property and casualty insurance contract and short-term life insurance contract

The primary assumption that has impact on the property and casualty insurance contract and short-term life insurance contract of the Group is the historical claim ratio. Other assumption is mainly about delay in payment. The table below illustrates the potential impact of a reasonable change of insurance claim ratio on the Group's profit before tax and equity, when other assumptions remain unchanged.

	As at December 31			
	2017		2016	
	Profit		Profit	
	before tax	Equity	before tax	Equity
+1%	(34,165)	(34,165)	(95,763)	(95,763)
-1%	<u>34,165</u>	<u>34,165</u>	<u>95,763</u>	<u>95,763</u>

- (2) Long-term life and health insurance contract

For long-term life and health insurance contract, key assumptions include mortality ratio, morbidity ratio, lapse rate, discount rate and cost rate, etc. The Group bases its mortality assumptions on China Life Insurance Mortality Table (2000-2003), adjusted where appropriate to reflect the Group's recent historical mortality experience. The Group bases its morbidity assumptions for critical illness products on the analysis of information provided by reinsurance companies and historical experience. Cost rate assumptions of the Group reflect the current and expected future operating results. All these assumptions mentioned above are consistent with market practice or other publicly available information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.5 Insurance risk (Continued)

(iii) Key assumptions and sensitivity analysis (Continued)

(2) Long-term life and health insurance contract (Continued)

For insurance contract that the future insurance benefits are not linked to the investment returns of the associated asset portfolios, the Group bases its discount rate assumptions on the interest rate appropriate for the cash flow period and risk characteristics of the associated liabilities. For those that are linked to the investment returns, the Group bases its discount rate assumptions on the expected future investment yield of the associated asset portfolios.

The table below illustrates the potential impact of a 10 basis points change of the discount rates on the Group's profit before tax and equity, when other assumptions remain unchanged.

As at December 31				
	2017		2016	
	Profit		Profit	
	before tax	Equity	before tax	Equity
+10bps	13,767	13,767	14,147	14,147
-10bps	(14,139)	(14,139)	(14,517)	(14,517)

The table below illustrates the potential impact of a 10% change of expense rates on the Group's profit before tax and equity, when other assumptions remain unchanged.

As at December 31				
	2017		2016	
	Profit		Profit	
	before tax	Equity	before tax	Equity
+10%	(117,863)	(117,863)	(78,550)	(78,550)
-10%	117,863	117,863	78,550	78,550

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

75. Financial risk management (Continued)

75.6 Capital management

The Group's objectives on capital management are as follows:

- Ensure compliance with regulatory requirements;
- Optimize capital allocation among the Group entities;
- Improve efficiency of capital employment;
- Safeguard the Group's ability to continue as a going concern to support the Group's development.

In accordance with the requirements of Consolidated Supervision Guidelines on Financial Asset Management Companies (Provisional) (Yinjianfa [2011] No. 20), issued by the CBRC in 2011, the Group manages its capital based on required minimum capital. Compliance with the requirement of minimum capital is the primary goal of capital management of the Group.

Minimum capital of the Group is the total of minimum capital of the Company and its subsidiaries after taking into account of the percentage of shareholding and making deduction as required by relevant rules and regulations. The Group is required to meet this minimum capital requirement stipulated by the CBRC.

In accordance with the requirements of Off-site Supervision Reporting Index System on Financial Asset Management Companies (Yinjianbanfa [2016] No. 38), issued by the CBRC in 2016, the Company is required to maintain a minimum core Tier I, common Tier I and Tier II Capital Adequacy Ratio ("CAR") at 9%, 10% and 12.5% respectively. CAR is calculated by dividing the corresponding qualified capital of the Company by its risk-weighted assets. As at December 31, 2017 and 2016, the Company complied with the regulatory requirements on the minimum CAR.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

76. Fair values of financial instruments

Assets and liabilities measured at fair value are classified into the following three levels based on the degree of fair value observability:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly, including bond prices, equity and stock prices, interest rates, foreign exchange rates; and
- Level 3: The management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair value, including the discounted cash flow analysis, net asset value and market comparison approach, etc. The fair value of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore, these assets and liabilities have been classified by the Group as level 3. The unobservable inputs which may have impact on the valuation include weighted average cost of capital, liquidity discount, price to book ratio, etc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

76. Fair values of financial instruments (Continued)

76.1. Fair values of financial assets and financial liabilities that are not measured on a recurring basis

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

Group

	As at December 31			
	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial assets classified as receivables	234,226,871	231,913,576	198,787,226	229,281,162
Accounts receivable	3,729,135	3,651,493	3,522,114	3,500,314
Held-to-maturity investments	13,227,363	13,261,641	12,635,621	12,764,477
Total	<u>251,183,369</u>	<u>248,826,710</u>	<u>214,944,961</u>	<u>245,545,953</u>
Financial liabilities				
Borrowings	(580,352,070)	(583,201,676)	(450,514,763)	(451,363,288)
Bonds issued	(206,482,644)	(199,642,290)	(152,497,560)	(151,872,628)
Total	<u>(786,834,714)</u>	<u>(782,843,966)</u>	<u>(603,012,323)</u>	<u>(603,235,916)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

76. Fair values of financial instruments (Continued)

76.1. Fair values of financial assets and financial liabilities that are not measured on a recurring basis (Continued)

Group

	As at December 31, 2017			Total
	Level 1	Level 2	Level 3	
Accounts receivable	–	–	3,651,493	3,651,493
Financial assets classified as receivables	–	–	231,913,576	231,913,576
Held-to-maturity investments	5,111,690	7,818,559	331,392	13,261,641
Total	<u>5,111,690</u>	<u>7,818,559</u>	<u>235,896,461</u>	<u>248,826,710</u>
Borrowings	–	–	(583,201,676)	(583,201,676)
Bonds issued	–	(136,517,051)	(63,125,239)	(199,642,290)
Total	<u>–</u>	<u>(136,517,051)</u>	<u>(646,326,915)</u>	<u>(782,843,966)</u>
	As at December 31, 2016			Total
	Level 1	Level 2	Level 3	
Accounts receivable	–	–	3,500,314	3,500,314
Financial assets classified as receivables	–	309,459	228,971,703	229,281,162
Held-to-maturity investments	4,920,059	7,525,450	318,968	12,764,477
Total	<u>4,920,059</u>	<u>7,834,909</u>	<u>232,790,985</u>	<u>245,545,953</u>
Borrowings	–	–	(451,363,288)	(451,363,288)
Bonds issued	–	(114,599,975)	(37,272,653)	(151,872,628)
Total	<u>–</u>	<u>(114,599,975)</u>	<u>(488,635,941)</u>	<u>(603,235,916)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

76. Fair values of financial instruments (Continued)

76.2. Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined including their fair value hierarchy, valuation technique(s) and key inputs used.

Group

Financial assets/ financial liabilities	Fair value as at December 31		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	2017	2016				
1) Held-for-trading financial assets	27,084,032	28,478,875				
Debt securities	12,702,985	14,483,494				
– Traded in stock exchange	6,605,189	7,617,207	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Traded in inter-bank market	2,916,027	3,790,278	Level 2	• Quoted market prices from dealers or independent pricing service vendors.	N/A	N/A
– Traded over the counter	3,181,769	3,076,009				
Equity instruments listed or traded on exchanges	6,546,153	8,720,033				
– Unrestricted listed equity instruments	5,120,819	8,004,425	Level 1	• Quoted bid prices in an active market.	N/A	N/A
Manufacturing	2,095,859	4,076,828				
Finance	1,434,428	1,160,798				
Real estate	475,384	855,496				
Construction	246,121	214,190				
Information transmission, software and information technology services	224,289	263,761				
Wholesale and retail trade	157,584	315,805				
Others	487,154	1,117,547				
– Restricted listed equity instruments	1,425,334	715,608	Level 3	• Option Pricing Model	• Stock volatility	• The lower the stock volatility, the higher the fair value.
Manufacturing	1,425,334	–				
Real estate	–	715,608				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

76. Fair values of financial instruments (Continued)

76.2. Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Group (Continued)

Financial assets/ financial liabilities	Fair value as at December 31		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	2017	2016				
Mutual funds	6,116,354	4,454,522				
– Listed	873,740	1,278,689	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Quoted	5,058,470	2,730,090	Level 1	• Quoted bid prices in an active market.	N/A	N/A
	184,144	445,743	Level 2	• Quoted market prices from dealers or independent pricing service vendors.	N/A	N/A
Derivatives	381,271	820,826				
	273,341	308,318	Level 1	• Quoted bid prices in an active market.	N/A	N/A
	107,930	512,508	Level 2	• Valuation techniques based on market data including interest rate and foreign exchange rate.	N/A	N/A
Interbank negotiate certificate of deposit	1,337,269	–	Level 2	• Valuation techniques based on market data including interest rate and foreign exchange rate.	N/A	N/A
2) Financial assets designated as at fair value through profit or loss	186,711,827	120,566,621				
Distressed debt assets	148,790,133	94,458,586	Level 3	• Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	• Expected recoverable amounts. • Expected recovery date. • Discount rates that correspond to the expected risk level.	• The higher the recoverable amounts, the higher the fair value. • The earlier the recovery date, the higher the fair value. • The lower the discount rates, the higher the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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VI. EXPLANATORY NOTES (Continued)

76. Fair values of financial instruments (Continued)

76.2. Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Group (Continued)

Financial assets/ financial liabilities	Fair value as at December 31		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	2017	2016				
Debt securities	695,702	364,193				
– Traded in stock exchange	309,224	293,175	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Traded in an inactive market	386,478	71,018	Level 3	• Discounted cash flow for the debt component and binomial option pricing model for the option component.	• Discount rates that correspond to expected risk level.	• The lower the discount rates, the higher the fair value.
				• Future cash flows are estimated based on contractual amounts and coupon rates discounted at a rate that reflects the credit risk of counterparty.	• Risk-free rates that are specific to the market.	• The lower the risk-free rate, the higher the fair value.
					• Volatility rates that are in line with those of similar products.	• The lower the volatility rate, the higher the fair value.
Funds	4,339,492	–	Level 3	• Recent transaction prices.	N/A	N/A
Wealth management products issued by banks or other financial institutions	1,646,200	3,553,188	Level 2	• Calculated based on the quoted prices of bonds and equity instruments in which the wealth management products invested in.	N/A	N/A
	232,140	431,680	Level 3	• Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	• Expected recoverable amounts.	• The higher the recoverable amounts, the higher the fair value.
					• Expected recovery date.	• The earlier the recovery date, the higher the fair value.
					• Discount rates that correspond to the expected risk level.	• The lower the discount rates, the higher the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

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VI. EXPLANATORY NOTES (Continued)

76. Fair values of financial instruments (Continued)

76.2. Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Group (Continued)

Financial assets/ financial liabilities	Fair value as at December 31		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	2017	2016				
Equity instruments	28,933,536	20,646,522				
– Equity investments in unlisted companies	11,052,501	10,972,919	Level 3	• Comparable company method.	• Market multiplier.	• The higher the market multiplier, the higher the fair value.
					• Discount for lack of Marketability (DLOM).	• The lower the DLOM, the higher the fair value.
	9,652,577	9,673,603	Level 3	• Net worth method.	N/A	N/A
	8,228,458	–	Level 3	• Recent transactions prices.	N/A	N/A
Asset management plans	411,074	–	Level 2	• Quoted market prices from dealers or independent pricing service vendors.	N/A	N/A
Asset-backed securities	54,636	58,004	Level 3	• Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	• Expected future cash flow.	• The higher the future cash flow, the higher the fair value.
					• Discount rates that correspond to the expected risk level.	• The lower the discount rate, the higher the fair value.
Embedded derivatives debts	404,298	171,691	Level 3	• Discounted cash flow for the debt component and binomial option pricing model for the option component.	• Expected future cash flow	• The higher the future cash flow, the higher the fair value.
					• Discount rates that correspond to the expected risk level.	• The lower the discount rate, the higher the fair value.
Others	1,204,616	882,757	Level 3	• Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	• Expected future cash flow.	• The higher the future cash flow, the higher the fair value.
					• Discount rates that correspond to the expected risk level.	• The lower the discount rate, the higher the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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VI. EXPLANATORY NOTES (Continued)

76. Fair values of financial instruments (Continued)

76.2. Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Group (Continued)

Financial assets/ financial liabilities	Fair value as at December 31		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	2017	2016				
3) Available-for-sale financial assets	233,120,966	170,709,358				
Debt securities	65,774,760	53,609,731				
– Traded in stock exchange	15,194,337	14,194,363	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Traded in inter-bank market	20,731,042	14,863,482	Level 2	• Quoted market prices from dealers or independent pricing service vendors.	N/A	N/A
– Traded over the counter	29,849,381	24,551,886				
Unrestricted listed equity instruments	4,145,851	4,572,322	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Mining	1,652,621	990,146				
– Manufacturing	915,143	1,155,312				
– Financial service	134,657	645,551				
– Other industries	1,443,430	1,781,313				
Preference shares	403,921	435,549				
– Financial service	403,921	435,549	Level 2	• Quoted market prices from dealers or independent pricing service vendors.	N/A	N/A
Restricted equity instruments	191,367	1,295,325	Level 3	• Option pricing model.	• Stock volatility.	• The lower the stock volatility, the higher the fair value.
– Mining	35,571	818,594				
– Financial service	63,331	476,731				
– Other industries	92,465	–				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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VI. EXPLANATORY NOTES (Continued)

76. Fair values of financial instruments (Continued)

76.2. Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Group (Continued)

Financial assets/ financial liabilities	Fair value as at December 31		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	2017	2016				
Certificates of deposit	27,929,436	14,235,718	Level 2	• Quoted market prices from dealers or independent pricing service vendors.	N/A	N/A
Funds	87,296,029	57,835,164				
– Listed	10,654,305	12,659,492	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Quoted	16,122,911	13,944,031	Level 1	• Quoted bid prices in an active market.	N/A	N/A
– Investing in entrusted loans	60,373,941	31,024,882	Level 3	• Discounted cash flow with future cash flow flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	• Expected future cash flow. • Expected recovery date.	• The higher the future cash flow, the higher the fair value. • The earlier the recovery date, the higher the fair value.
					• Discount rates that correspond to the expected risk level.	• The lower the discount rate, the higher the fair value.
– Investing in restricted equity instruments	144,872	206,759	Level 3	• Option pricing model.	• Stock volatility.	• The lower the stock volatility, the higher the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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VI. EXPLANATORY NOTES (Continued)

76. Fair values of financial instruments (Continued)

76.2. Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Group (Continued)

Financial assets/ financial liabilities	Fair value as at December 31		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	2017	2016				
Trust products and rights to trust assets	20,612,962	16,486,799				
– Investing in the underlying assets with open or active market quotations	79,925	70,707	Level 2	• Calculated based on the quoted prices of equity instruments on which the trust products invested in.	N/A	N/A
– Others	20,533,037	16,416,092	Level 3	• Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	• Expected future cash flow. • Expected recovery date. • Discount rates that correspond to the expected risk level.	• The higher the future cash flow, the higher the fair value. • The earlier the recovery date, the higher the fair value. • The lower the discount rate, the higher the fair value.
Assets management plans	13,992,002	12,486,496				
– Investing in the underlying assets with open or active quotations	6,360,932	6,720,139	Level 2	• Calculated based on the quoted prices of similar assets traded in an active market.	N/A	N/A
– Investing in debt instruments	7,631,070	5,766,357	Level 3	• Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	• Expected future cash flow. • Expected recovery date. • Discount rates that correspond to the expected risk level.	• The higher the future cash flow, the higher the fair value. • The earlier the recovery date, the higher the fair value. • The lower the discount rate, the higher the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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VI. EXPLANATORY NOTES (Continued)

76. Fair values of financial instruments (Continued)

76.2. Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Group (Continued)

Financial assets/ financial liabilities	Fair value as at December 31		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	2017	2016				
Wealth management products	11,820,000	6,500,000				
– Issued by banks or other financial institutions without quoted prices	11,820,000	6,500,000	Level 3	• Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	• Expected future cash flow. • Expected recovery date.	• The higher the future cash flow, the higher the fair value. • The earlier the recovery date, the higher the fair value.
					• Discount rates that correspond to the expected risk level.	• The lower the discount rate, the higher the fair value.
Asset-backed securities	863,483	1,061,325	Level 3	• Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	• Expected future cash flow. • Expected recovery date.	• The higher the future cash flow, the higher the fair value. • The earlier the recovery date, the higher the fair value.
					• Discount rates that correspond to the expected risk level.	• The lower the discount rate, the higher the fair value.
Others	91,155	2,190,929				
– issued by banks or other financial institutions	42,323	587,683	Level 3	• Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	• Expected future cash flow. • Expected recovery date.	• The higher the future cash flow, the higher the fair value. • The earlier the recovery date, the higher the fair value.
					• Discount rates that correspond to the expected risk level.	• The lower the discount rate, the higher the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

76. Fair values of financial instruments (Continued)

76.2. Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Group (Continued)

Financial assets/ financial liabilities	Fair value as at December 31		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
2017	2016					
- Others	48,832	1,603,246	Level 2	• Calculated based on the quoted prices of bonds, equity instruments on which the asset portfolios invested in.	N/A	N/A
4) Financial liabilities at fair value through profit or loss	(6,794,129)	(6,511,691)				
Exchange-traded derivative financial liabilities	-	(110,595)	Level 1	• Quoted bid prices in an active market.	N/A	N/A
The OTC derivative financial liabilities	(386,647)	(742,682)	Level 2	• Calculated based on the quoted prices of similar assets traded in an active market	N/A	N/A
Short positions in exchange fund bills and notes	(3,632,482)	(2,883,414)	Level 2	• Calculated based on quoted prices of bonds, equity instruments on which the asset portfolios invested in.	N/A	N/A
Forward payment plan	(2,775,000)	(2,775,000)	Level 3	• Discounted cash flow with future cash flows that are estimated based on expected payable amounts, discounted at rates that reflect management's best estimation of the expected risk level.	• Expected future cash flow. • Expected payment date. • Discount rates that correspond to the expected risk level.	• The higher the future cash flow, the higher the fair value. • The earlier the payment date, the higher the fair value. • The lower the discount rate, the higher the fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

76. Fair values of financial instruments (Continued)

76.2. Fair values of financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

The following tables provide a summary of financial instruments that are measured at fair value subsequent to initial recognition, grouped into three levels:

Group

	As at December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	18,240,783	9,784,413	185,770,663	213,795,859
Available-for-sale financial assets	46,117,404	85,403,469	101,600,093	233,120,966
Total assets	<u>64,358,187</u>	<u>95,187,882</u>	<u>287,370,756</u>	<u>446,916,825</u>
Financial liabilities at fair value through profit or loss	–	(4,019,129)	(2,775,000)	(6,794,129)
Total liabilities	<u>–</u>	<u>(4,019,129)</u>	<u>(2,775,000)</u>	<u>(6,794,129)</u>

	As at December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	20,231,904	11,377,726	117,435,866	149,045,496
Available-for-sale financial assets	45,370,208	62,480,727	62,858,423	170,709,358
Total assets	<u>65,602,112</u>	<u>73,858,453</u>	<u>180,294,289</u>	<u>319,754,854</u>
Financial liabilities at fair value through profit or loss	(110,595)	(3,626,096)	(2,775,000)	(6,511,691)
Total liabilities	<u>(110,595)</u>	<u>(3,626,096)</u>	<u>(2,775,000)</u>	<u>(6,511,691)</u>

There were no transfers between Level 1 and 2 during the year.

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the future cash flows and discount rates that reflect the credit risk of counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)*FOR THE YEAR ENDED DECEMBER 31, 2017*

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)**76. Fair values of financial instruments (Continued)****76.3. Reconciliation of Level 3 fair value measurements**Group

	Financial assets at FVTPL	Available- for-sale financial assets	Financial liabilities at FVTPL
As at January 1, 2017	117,435,866	62,858,423	(2,775,000)
Recognized in profit or loss	(986,082)	(2,301,737)	–
Recognized in other comprehensive income	–	35,565	–
Purchases	104,670,244	71,615,975	–
Settlements/disposals at cost	(35,349,365)	(29,789,539)	–
Transfer out from Level 3	–	(818,594)	–
	<u>185,770,663</u>	<u>101,600,093</u>	<u>(2,775,000)</u>
As at December 31, 2017	<u>185,770,663</u>	<u>101,600,093</u>	<u>(2,775,000)</u>
Changes in unrealized gains or losses for the year included in profit or loss for assets held at the end of the year	<u>(790,050)</u>	<u>(2,217,167)</u>	<u>–</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

76. Fair values of financial instruments (Continued)

76.3. Reconciliation of Level 3 fair value measurements (Continued)

Group (Continued)

	Financial assets at FVTPL	Available- for-sale financial assets	Financial liabilities at FVTPL
As at January 1, 2016	90,854,216	23,828,685	(2,779,923)
Recognized in profit or loss	870,651	(165,582)	–
Recognized in other comprehensive income	–	407,833	–
Purchases	92,182,596	54,808,658	–
Settlements/disposals at cost	<u>(66,471,597)</u>	<u>(16,021,171)</u>	<u>4,923</u>
As at December 31, 2016	<u>117,435,866</u>	<u>62,858,423</u>	<u>(2,775,000)</u>
Changes in unrealized gains or losses for the year included in profit or loss for assets held at the end of the year	<u>1,914,531</u>	<u>(98,332)</u>	<u>–</u>

Certain restricted equity instruments became tradable during the year of 2017, and quoted prices in active markets were available for these securities. Therefore, these securities were transferred from Level 3 to Level 1 of the fair value hierarchy at the end of the reporting period.

Total gains or losses for the years ended December 31, 2017 and 2016 included in the statement of profit or loss as well as total gains or losses included in the statement of profit or loss relating to financial instruments held as at December 31, 2017 and 2016 are presented in “unrealized gains are included in fair value changes on distressed debt assets”, “fair value changes on other financial assets”, “impairment losses on assets” depending on the nature or category of the related financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

77. Disposal of subsidiaries

(1) *Cinda Property and Casualty Insurance Co., Ltd.*

The Company entered into a Sale and Purchase Agreement with Shenzhen Investment Holding Co., Ltd. in relation to the sale of 41% of the issued shares of Cinda Property and Casualty Insurance Co., Ltd.. The sale was completed on 13 April 2017 in accordance with the terms and conditions of the Sale and Purchase Agreement. Upon completion, the remaining shares held by the Company were 10%, and Cinda Property and Casualty Insurance Co., Ltd. ceased to be included in the consolidated financial statements as a subsidiary of the Company.

Gain on disposal of Cinda Property and Casualty Insurance Co., Ltd.

	Year ended December 31, 2017
Total consideration	4,220,000
Fair value of the remaining shares	481,635
Net assets disposed of	(2,641,388)
Non-controlling interests	1,294,280
Cumulative other comprehensive income reclassified to the statement of profit or loss	24,329
Gain on disposal	<u><u>3,378,856</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

77. Disposal of subsidiaries (Continued)

(1) Cinda Property and Casualty Insurance Co., Ltd. (Continued)

Net assets of Cinda Property and Casualty Insurance Co., Ltd. at the date of disposal

	At the date of disposal
Financial assets held under resale agreements	313,300
Accounts receivable	308,780
Available-for-sale financial assets	3,097,425
Financial assets classified as receivables	606,000
Deposits with exchanges and others	600,000
Other assets	1,114,506
Less: Financial assets sold under repurchase agreements	316,000
Unearned premium reserve	1,222,207
Outstanding claims reserve	1,237,209
Other liabilities	623,207
Net assets	2,641,388

Net cash flows from disposal of Cinda Property and Casualty Insurance Co., Ltd.

	Year ended December 31, 2017
Cash consideration received from disposal ⁽¹⁾	4,220,000
Less: cash and cash equivalent balances disposed of	164,946
Net cash flows from disposal	4,055,054

(1) Cash consideration has been received at the end of 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VI. EXPLANATORY NOTES (Continued)

77. Disposal of subsidiaries (Continued)

(2) Other subsidiaries

During the year, the Group disposed of some of its other subsidiaries. These subsidiaries of the Group mainly operate in the real estate industries.

None of these disposals were individually significant. Their aggregated information is set out below:

Consideration received:

	Year ended December 31	
	2017	2016
Cash received	<u>450,500</u>	<u>1,746,384</u>

Analysis of assets and liabilities of the subsidiaries disposed of:

	Year ended December 31	
	2017	2016
Current assets	2,369,477	641,647
Non-current assets	90,173	833,008
Current liabilities	1,002,726	648,548
Non-current liabilities	<u>749,000</u>	<u>19,000</u>

Net cash flows arising on disposal:

	Year ended December 31	
	2017	2016
Cash consideration received	450,500	1,746,384
Less: Cash and cash equivalent balances disposed of	<u>6,352</u>	<u>123,419</u>
Net cash flows	<u>444,148</u>	<u>1,622,965</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED DECEMBER 31, 2017

(Amounts in thousands of RMB, unless otherwise stated)

VII. EVENTS AFTER THE REPORTING PERIOD

1. Pursuant to the meeting of the Board of Directors on March 27, 2018, the proposal of the profit appropriations of the Company for the year ended December 31, 2017 is set out as follows:

- (1) An appropriation of RMB1,393,979 thousand to the statutory surplus reserve;
- (2) An appropriation of RMB2,384,843 thousand to the general reserve; and
- (3) A dividend of RMB5,419,364 thousand in total in respect of the year.

As at December 31, 2017, the statutory surplus reserve had been recognized as appropriation. The general reserve and the dividend will be recognized on the Company's and the Group's financial statements after the approval by shareholders in the forthcoming general meeting.

VIII. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are approved and authorized by the Board of Directors on March 27, 2018.

16 BRANCHES AND MAJOR SUBSIDIARIES

1. Head Office

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2. Subsidiaries

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3. Platform for financial service and asset management businesses

▲ Nanyang Commercial Bank, Limited

Address: 151 Des Voeux Road, Central, Hong Kong

Tel. No.: (00852) 2852-0888

Fax No.: (00852) 2815-3333

Website: <http://www.ncb.com.hk>

• Nanyang Commercial Bank (China) Limited

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Tel. No.: (021) 3856-6666

Fax No.: (021) 6887-9800

Postal code: 200120

▲ Cinda Securities Co., Ltd.

Address: No. 1 Building, 9 Naoshikou Street, Xicheng District, Beijing

Postal code: 100031

National customer service hotline: 95321, 400-800-8899

Tel. No.: (010) 63080918

Fax No.: (010) 63080918

Website: www.cindasc.com

• Cinda Futures Co., Ltd.

Address: 12 and 16/F, Zhejiang Logistics Publishing House Building, 108 Wenhui Road, Hangzhou, Zhejiang

Postal code: 310004

National customer service hotline: 4006-728-728

Tel. No.: (0571) 28132666

Fax No.: (0571) 28132689

Website: www.cindaqh.com

• First State Cinda Fund Management Co., Ltd.

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Postal code: 518054

National customer service hotline: 400-8888-118, 86-755-83160160

Tel. No.: (0755) 83172666

Fax No.: (0755) 83196151

Website: www.fscinda.com

• Cinda Innovation Investment Co., Ltd.

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Postal code: 100031

Tel. No.: (010) 83326768

Fax No.: (010) 83326766

- Xinfeng Investment Management Co., Ltd.

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Fax No.: (010) 53271478

▲ China Jingu International Trust Co., Ltd.

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Fax No.: (010) 88086546

Website: www.jingutrust.com

▲ Cinda Financial Leasing Co., Ltd.

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Tel. No.: (010) 64198100

Fax No.: (010) 64159400

▲ Happy Life Insurance Co., Ltd.

Address: 8/F, Tower B, East Gate Plaza, 29 Dongzhong Street, Dongcheng District, Beijing

Postal code: 100027

National customer service hotline: 95560, 4006-688-688

Tel. No.: (010) 66271800

Fax No.: (010) 66271700

Website: www.happyinsurance.com.cn

▲ China Cinda (HK) Holdings Company Limited

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- Cinda International Holdings Limited

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- Cinda Capital Management Co., Ltd.

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- ▲ Zhongrun Economic Development Co., Ltd.

Address: 9/F, China Commerce Tower, 5 Sanlihe East Road, Xicheng District, Beijing

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Tel. No.: (010) 68535376

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Note: “▲” represents a branch or a tier-one subsidiary and “•” represents a subsidiary of a tier-one subsidiary