甘肃银行
BANK OF GANSU

BANK OF GANSU CO., LTD.*
甘肅銀行股份有限公司*

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 2139)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2017

The board of directors (the "**Board**") of Bank of Gansu Co., Ltd. (the "**Bank**") is pleased to announce the audited annual results (the "**Annual Results**") of the Bank and its subsidiary (the "**Group**") for the year ended December 31, 2017 (the "**Reporting Period**") prepared in accordance with the International Financial Reporting Standards (the "**IFRSs**") promulgated by the International Accounting Standards Board. The Board and its audit committee have reviewed and confirmed the Annual Results.

1. BASIC INFORMATION OF THE COMPANY

Legal Name of the Company in Chinese	:	甘肅銀行股份有限公司
Legal Name of the Company in English	:	Bank of Gansu Co., Ltd.
Legal Representative	:	Li Xin
Authorized Representatives	:	Li Xin, Ko Nga Kit
Secretary to the Board of Directors	:	Xu Jianping
Joint Company Secretaries	:	Xu Jianping, Ko Nga Kit
Registered Address	:	No. 122, Gannan Road, Chengguan District, Lanzhou, Gansu province, the PRC
Principal Office Address	:	Gansu Bank Building, No. 525 Donggang West Road, Chengguan District, Lanzhou, Gansu province, the PRC

Customer Service Hotline	:	+86 400-86 96666
Telephone	:	+86 931 877 0491
Facsimile	:	+86 931 877 1877
Company Website	:	www.gsbankchina.com
Principal Place of Business in Hong Kong	:	18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong
H Share Information Disclosure Website	:	www.hkexnews.hk
Stock Listing Place, Stock Short Name and Stock Code	:	The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"), BANK OF GANSU, 2139
H Share Registrar	:	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
PRC Legal Adviser	:	Grandall Law Firm (Shanghai) 23-25/F, Garden Square 968 West Beijing Road Shanghai, the PRC
Hong Kong Legal Adviser	:	Latham & Watkins 18/F, One Exchange Square 8 Connaught Place Central, Hong Kong
Domestic Auditor	:	Shinewing Certified Public Accountants LLP 9/F, Block A, Fu Hua Mansion No. 8 Chao Yang Men Bei Da Jie Dong Cheng District, Beijing, the PRC

International Auditor	:	SHINEWING (HK) CPA Limited 43/F, Lee Garden One 33 Hysan Avenue, Causeway Bay Hong Kong
Compliance Advisor	:	Guotai Junan Capital Limited 27/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Place of Inspection of the Annual Report	:	office of the Board of the Bank

2. FINANCIAL HIGHLIGHTS

2.1 Financial Data from 2014 to 2017

(Expressed in millions of RMB, unless otherwise stated)	2017	2016	2015	2014
Results of operations				
Interest income	**14,045.8**	12,063.0	11,129.0	7,992.7
Interest expense	**(6,560.8)**	(5,392.8)	(5,995.0)	(4,559.7)
Net interest income	**7,485.0**	6,670.2	5,134.0	3,433.0
Fee and commission income	**462.8**	327.4	198.7	166.0
Fee and commission expenses	**(86.1)**	(71.1)	(57.3)	(27.4)
Net fee and commission income	**376.7**	256.3	141.4	138.6
Net trading losses	**(21.9)**	(8.0)	(6.1)	—
Net gains arising from investment securities	**116.9**	—	(1.0)	—
Net exchange (losses)/gains	**(13.2)**	9.9	6.3	(1.2)
Other operating income	**109.0**	42.5	28.2	32.0
Operating income	**8,052.5**	6,970.9	5,302.8	3,602.4
Operating expenses	**(2,052.2)**	(1,903.8)	(1,830.0)	(1,258.6)
Impairment losses on assets	**(1,523.0)**	(2,504.4)	(1,720.5)	(938.0)
Operating profit	**4,477.3**	2,562.7	1,752.3	1,405.8
Share of profits of associates	**1.8**	1.9	1.4	2.8
Profit before tax	**4,479.1**	2,564.6	1,753.7	1,408.6
Income tax expense	**(1,115.4)**	(643.6)	(455.3)	(346.0)
Profit for the year	**3,363.7**	1,921.0	1,298.4	1,062.6
Profit for the year attributable to:				
— Owners of the Bank	**3,358.5**	1,917.0	1,295.4	1,060.0
— Non-controlling interests	**5.2**	4.0	3.0	2.6
Profit for the year	**3,363.7**	1,921.0	1,298.4	1,062.6

(Expressed in millions of RMB, unless otherwise stated)	**2017**	2016	2015	2014
Major indicators of assets/liabilities				
Total assets	**271,147.6**	245,056.4	211,930.7	165,100.1
Of which: total loans and advances to customers	**130,283.6**	107,855.1	90,626.7	56,495.5
Total liabilities	**254,534.6**	231,712.7	199,836.0	154,350.2
Of which: deposits from customers	**192,230.6**	171,165.3	141,020.6	110,541.6
Total equity	**16,613.0**	13,343.7	12,094.7	10,749.9
Per share (RMB)				
Net assets per share	**2.21**	1.77	1.61	1.51
Basic earnings per share	**0.45**	0.25	0.17	0.19
Diluted earnings per share	**0.45**	0.25	0.17	0.19
Profitability indicators (%)				
Return on assets(1)	**1.30%**	0.84%	0.69%	0.87%
Return on equity(2)	**22.46%**	15.10%	11.37%	12.16%
Net interest spread(3)	**2.74%**	2.89%	2.79%	2.56%
Net interest margin(4)	**2.91%**	3.08%	2.96%	2.85%
Net fee and commission income to operating income ratio(5)	**4.68%**	3.68%	2.67%	3.85%
Cost-to-income ratio(6)	**24.81%**	25.16%	28.72%	29.56%
Capital adequacy indicators (%)				
Core tier-one capital adequacy ratio(7)	**8.71%**	8.58%	8.57%	9.85%
Tier-one capital adequacy ratio(8)	**8.71%**	8.58%	8.57%	9.85%
Capital adequacy ratio(9)	**11.54%**	11.80%	11.42%	10.55%
Shareholders' equity to total assets ratio	**6.13%**	5.45%	5.71%	6.51%
Assets quality indicators (%)				
Non-performing loan ratio	**1.74%**	1.81%	1.77%	0.39%
Provision coverage ratio(10)	**222.00%**	192.72%	150.94%	448.83%
Provision to total loan ratio(11)(12)	**3.86%**	3.48%	2.67%	1.73%
Other indicators (%)				
Loan to deposit ratio(13)	**67.77%**	63.01%	64.26%	51.11%

Notes:

(1) Calculated by dividing the net profit for a year by the average balance of total assets at the beginning and the end of that year.

(2) Calculated by dividing the net profit for a year by the average balance of total equity at the beginning and the end of that year.

(3) Represents the difference between the average yield on total interest-earning assets and the average cost on total interest-bearing liabilities.

(4) Calculated by dividing net interest income by average interest-earning assets.

(5) Calculated by dividing net fee and commission income by operating income.

(6) Calculated by dividing total operating expenses (net of business tax and surcharges) by operating income.

(7) Core tier-one capital adequacy ratio = (core tier-one capital – corresponding capital deductions) / risk-weighted assets.

(8) Tier-one capital adequacy ratio = (tier-one capital – corresponding capital deductions) / risk-weighted assets.

(9) Capital adequacy ratio = (total capital – corresponding capital deductions) / risk-weighted assets.

(10) Provision coverage ratio = provision for impairment losses on loans / total non-performing loans and advances.

(11) Provision to total loan ratio = provision for impairment losses on loans / total loans and advances to customers.

(12) In accordance with the relevant regulatory requirements, as a non-systematically important bank in China, the Bank is required to maintain a minimum provision to total loan ratio of 2.5% by December 31, 2017.

(13) Calculated by dividing total loans and advances to customers by total customer deposits. The loan to deposit ratio is no longer a regulatory ratio for PRC commercial banks under the amended PRC Commercial Banking Law, which became effective on October 1, 2015.

2.2 Financial Data for 2013[1]

(Expressed in millions of RMB, unless otherwise stated)	2013
Results of operations	
Interest income	2,936.4
Interest expense	(1,190.9)
Net interest income	1,745.5
Fee and commission income	37.5
Fee and commission expenses	(2.5)
Net fee and commission income	35.0
Other operating income	4.5
Operating income	1,785.0
Operating expenses	(685.4)
Impairment losses on assets	(347.2)
Operating profit	752.4
Share of profits of associates	0.1
Profit before tax	752.5
Income tax expense	(194.2)
Profit for the year	558.3
Profit for the year attributable to:	
— Owners of the Bank	555.2
— Non-controlling interests	3.1
Profit for the year	558.3

(Expressed in millions of RMB, unless otherwise stated)	2013
Main indicators of assets/liabilities	
Total assets	79,735.5
Of which: total loans and advances to customers	30,031.4
Total liabilities	73,089.7
Of which: deposits from customers	55,874.2
Total equity	6,645.8
Per share (RMB)	
Net assets per share	1.35
Basic earnings per share	0.11
Diluted earnings per share	0.11
Profitability indicators (%)	
Return on assets(2)	1.03%
Return on equity(3)	10.23%
Net fee and commission income to operating income ratio(4)	1.96%
Cost-to-income ratio(5)	32.89%
Capital adequacy indicators (%)	
Core tier-one capital adequacy ratio(6)	12.72%
Tier-one capital adequacy ratio(7)	12.72%
Capital adequacy ratio(8)	13.64%
Shareholders' equity to total assets ratio	8.33%
Assets quality indicators (%)	
Non-performing loan ratio	0.27%
Provision coverage ratio(9)	505.14%
Provision to total loan ratio(10)(11)	1.37%
Other indicators (%)	
Loan to deposit ratio(12)	53.75%

Notes:

(1) The financial data for 2013 has been prepared in accordance with the PRC Accounting Standards for Business Enterprises.

(2) Calculated by dividing the net profit for a year by the average balance of total assets at the beginning and the end of that year.

(3) Calculated by dividing the net profit for a year by the average balance of total equity at the beginning and the end of that year.

(4) Calculated by dividing net fee and commission income by operating income.

(5) Calculated by dividing total operating expenses (net of business tax and surcharges) by operating income.

(6) Core tier-one capital adequacy ratio = (core tier-one capital – corresponding capital deductions) / risk-weighted assets.

(7) Tier-one capital adequacy ratio = (tier-one capital – corresponding capital deductions) / risk-weighted assets.

(8) Capital adequacy ratio = (total capital – corresponding capital deductions) / risk-weighted assets.

(9) Provision coverage ratio = provision for impairment losses on loans / total non-performing loans and advances.

(10) Provision to total loan ratio = provision for impairment losses on loans / total loans and advances to customers.

(11) In accordance with the relevant regulatory requirements, as a non-systematically important bank in China, the Bank is required to maintain a minimum provision to total loan ratio of 2.5% by December 31, 2017.

(12) Calculated by dividing total loans and advances to customers by total customer deposits. The loan to deposit ratio is no longer a regulatory ratio for PRC commercial banks under the amended PRC Commercial Banking Law, which became effective on October 1, 2015.

3. MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Environment and Prospect

In 2017, the global economy recovered sharply. Thanks to the proactive fiscal policies, sound monetary policies, and supply-side structural reforms, China's economy maintained operating within a reasonable range, and achieved steady and favorable development. China's gross domestic product (GDP) reached RMB82.7 trillion, representing an increase of 6.9% year-on-year, rebounding for the first time since economic growth slowdown in 2011.

Gansu Province, where the Bank mainly operates, is benefitted from the promotion of targeted poverty alleviation, "conducting of key projects, development of key industries, and implementation of key policies", "different policies for varied industries, enterprises and situations" and the cultivation of new kinetic energy. In 2017, the economic operation was basically steady, and the quality benefits continued to improve. The GDP of the province reached RMB767.7 billion, representing an increase of 3.6% as compared to the previous year. The growth of residents' income was faster than that of economic growth. The disposable income of urban residents and the disposable income of rural residents increased by 8.1% and 8.3% year-on-year, respectively. Consumption made greater contributions to economic growth, and the total retail sales of social consumer goods in the province increased by 7.6% as compared to the previous year.

In 2018, the global economy will continue to recover, with brighter prospects but numerous challenges, and there are uncertainties in many aspects. China's economy has entered a period of high-quality development from high-speed growth, and it is currently in the key period of transforming the mode of development, optimizing the economic structure, and transforming the growth momentum. Under the continued promotion of structural reform on the supply side, innovation-driven development strategy, implementation of the strategy for rural revitalization, and the three major challenges, the situation of steady growth, improvement of supply system quality, and optimization of economic structure will continue to be maintained. The continuity and coordination of development will continue to increase. Judging from the development of Gansu Province, 2018 is a critical year for making up shortfalls and expanding the total volume while improving quality.

In 2018, the Bank will fully take advantage of the opportunities brought by local economic development, steadily expand assets during the enhancement of efficiency, maintain the stability of asset quality, further promote business transformation and integrated operations, improve capital management, and increase the application of financial technology to improve basic management capabilities.

3.2 Development Strategy

2018 is the first year after the Bank's listing on the Hong Kong Stock Exchange. The Bank's strategic vision is to become a top comprehensive financial group that integrates modern city commercial banks, consumer finance and financial leasing in Western China. In order to achieve the goals, the Bank plans to: (1) implement integrated operations and continuously improve its financial service capabilities; (2) promote the development of distinctive features and enhance the competitiveness of "agriculture, rural areas and farmers" and small and micro business; (3) focus on the advanced technologies of finance, continuously improve financial technology innovation; (4) strengthen meticulous management and continuously enhance the execution capabilities of compliance operation; and (5) insist on the talent orientation and continuously enhance the cohesion of employees.

3.3 Overall Business Review

The Bank recorded a total operating income of RMB8,052.5 million in 2017, representing an increase of 15.5% as compared to RMB6,970.9 million in 2016. The Bank's net profit increased by 75.1% from RMB1,921.0 million in 2016 to RMB3,363.7 million in 2017. The Bank's performance not only delivered sound returns to the Shareholders and investors, but also laid a solid foundation for its sustainable development.

As at December 31, 2017, the Bank's total assets amounted to RMB271,147.6 million, representing a year-on-year increase of 10.6%; total loans and advances to customers amounted to RMB130,283.6 million, representing a year-on-year increase of 20.8%; the non-performing loan ratio remained at a reasonable level of 1.74%; total deposits from customers amounted to RMB192,230.6 million, representing a year-on-year increase of 12.3%.

(a) Analysis of the Consolidated Statements of Profit or Loss

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2017	2016	Increase or decrease	Percentage change (%)
Interest income	**14,045.8**	12,063.0	1,982.8	16.4%
Interest expense	**(6,560.8)**	(5,392.8)	(1,168.0)	21.7%
Net interest income	**7,485.0**	6,670.2	814.8	12.2%
Fee and commission income	**462.8**	327.4	135.4	41.4%
Fee and commission expenses	**(86.1)**	(71.1)	(15.0)	21.1%
Net fee and commission income	**376.7**	256.3	120.4	47.0%
Net trading losses	**(21.9)**	(8.0)	(13.9)	173.8%
Net gains/(losses) arising from investment securities	**116.9**	—	116.9	—
Net exchange (losses)/gains	**(13.2)**	9.9	(23.1)	(233.3)%
Other operating income	**109.0**	42.5	66.5	156.5%
Operating income	**8,052.5**	6,970.9	1,081.6	15.5%
Operating expenses	**(2,052.2)**	(1,903.8)	(148.4)	7.8%
Impairment losses on assets	**(1,523.0)**	(2,504.4)	981.4	(39.2)%
Operating profit	**4,477.3**	2,562.7	1,914.6	74.7%
Share of Profits of associates	**1.8**	1.9	(0.1)	(5.3)%
Profit before tax	**4,479.1**	2,564.6	1,914.5	74.7%
Income tax expense	**(1,115.4)**	(643.6)	(471.8)	73.3%
Profit for the year	**3,363.7**	1,921.0	1,442.7	75.1%
Profit for the year attributable to:				
— Owners of the Bank	**3,358.5**	1,917.0	1,441.5	75.2%
— Non-controlling interests	**5.2**	4.0	1.2	30.0%
Profit for the year	**3,363.7**	1,921.0	1,442.8	75.1%

In 2017, the Bank's profit before tax was RMB4,479.1 million, representing a year-on-year increase of 74.7%; profit for the year was RMB3,363.7 million, representing a year-on-year increase of 75.1%, mainly attributable to the stable growth of total interest-earning assets resulting in increase in net interest income of RMB814.8 million or 12.2% as compared to the previous year.

(i) Net interest income

The net interest income was the largest component of the Bank's operating revenue, accounting for 95.7% and 93.0% of the operating income in 2016 and 2017 respectively. The table below sets forth the Bank's interest income, interest expenses and net interest income for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2017	2016	Increase or decrease	Percentage change (%)
Interest income	**14,045.8**	12,063.0	1,982.8	16.4%
Interest expense	**(6,560.8)**	(5,392.8)	(1,168.0)	21.7%
Net interest income	**7,485.0**	6,670.2	814.8	12.2%

The table below sets forth the average balances of interest-earning assets and interest-bearing liabilities, the related interest income or expenses and the average yield of related assets or average cost of related liabilities of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	**Year ended December 31, 2017** Average balance[1]	Interest income	Average yield[2] (%)	Year ended December 31, 2016 Average balance[1]	Interest income	Average yield[2] (%)
Interest-earning assets						
Loans and advances to customers	**116,311.5**	**7,744.8**	**6.66%**	99,242.8	6,575.9	6.63%
Investment securities and other financial assets[3]	**82,720.9**	**4,687.8**	**5.67%**	75,528.1	4,669.2	6.18%
Deposits with banks	**26,615.8**	**974.5**	**3.66%**	18,758.3	453.3	2.42%
Financial assets held under resale agreements and placements with banks and other financial institutions	**6,692.5**	**251.3**	**3.75%**	820.6	22.0	2.68%
Deposits with the central bank[4]	**24,974.1**	**387.4**	**1.55%**	22,112.7	342.6	1.55%
Total interest-earning assets	**257,314.8**	**14,045.8**	**5.46%**	216,462.5	12,063.0	5.57%

(Expressed in millions of RMB, unless otherwise stated)	**Year ended December 31, 2017** Average balance[1]	Interest expense	Average cost[2] (%)	Year ended December 31, 2016 Average balance[1]	Interest expense	Average cost[2] (%)
Interest-bearing liabilities						
Deposits from customers	**177,607.9**	**3,532.7**	**1.99%**	142,794.6	2,888.1	2.02%
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	**7,899.0**	**239.1**	**3.03%**	4,051.4	93.6	2.31%
Debt securities issued[5]	**20,126.6**	**946.0**	**4.70%**	12,331.4	445.8	3.62%
Deposits from banks and other financial institutions	**31,807.2**	**1,712.5**	**5.38%**	37,089.3	1,817.9	4.90%
Borrowings from the central bank	**3,939.4**	**130.5**	**3.31%**	4,695.2	147.4	3.14%
Total interest-bearing liabilities	**241,380.1**	**6,560.8**	**2.72%**	200,961.9	5,392.8	2.68%
Net interest income		**7,485.0**			6,670.2	
Net interest spread[6]			**2.74%**			2.89%
Net interest margin[7]			**2.91%**			3.08%

Notes:

(1) The daily average balances of interest-earning assets and interest-bearing liabilities are derived from our unaudited management accounts.

(2) Calculated by dividing interest income/expense by average balance.

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

(4) Primarily includes statutory deposit reserves, surplus deposit reserves and fiscal deposits reserves.

(5) Primarily includes interbank certificates and tier-two capital bonds.

(6) Represents the difference between the average yield of total interest-earning assets and the average cost of total interest-bearing liabilities.

(7) Calculated by dividing net interest income by the daily average balance of interest-earning assets.

The table below sets forth the changes in interest income and interest expense attributable to changes in amount and interest rate for the periods indicated. Changes in amount are measured by changes in average balances, and changes in rate are measured by changes in average interest rates. Changes caused by both amount and interest rate have been allocated to changes in amount.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2017 vs 2016 Increase/(decrease) due to Amount(1)	Rate(2)	Net increase/ (decrease)(3)
Interest-earning assets			
Loans and advances to customers.	1,136.5	32.4	1,168.9
Investment securities and other financial assets	407.6	(389.0)	18.6
Deposits with banks	287.7	233.5	521.2
Financial assets held under resale agreements and placements with banks and other financial institutions	220.5	8.8	229.3
Deposits with the central bank	44.4	0.4	44.8
Change in interest income	2,096.7	(113.9)	1,982.8
Interest-bearing liabilities			
Deposits from customers	692.5	(47.9)	644.6
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	116.5	29.0	145.5
Debt securities issued.	366.4	133.8	500.2
Deposits from banks and other financial institutions	(284.4)	179.0	(105.4)
Borrowings from the central bank	(25.0)	8.1	(16.9)
Change in interest expense.	866.0	302.0	1,168.0
Change in net interest income	1,230.7	(415.9)	814.8

Notes:

(1) Represents the average balance for the year minus the average balance for the previous year, multiplied by the average yield/cost for the year.

(2) Represents the average yield/cost for the year minus the average yield/cost for the previous year, multiplied by the average balance for the previous year.

(3) Represents interest income/expense for the year minus interest income/expense for the previous year.

(ii) Interest income

The table below sets forth the principal components of interest income of the Bank for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2017 Amount	2017 % of total	2016 Amount	2016 % of total
Loans and advances to customers	**7,744.8**	**55.1%**	6,575.9	54.5%
Investment securities and other financial assets	**4,687.8**	**33.4%**	4,669.2	38.7%
Deposits with banks	**974.5**	**6.9%**	453.3	3.8%
Financial assets held under resale agreements and placements with banks and other financial institutions	**251.3**	**1.8%**	22.0	0.2%
Deposits with the central bank	**387.4**	**2.8%**	342.6	2.8%
Total	**14,045.8**	**100.0%**	12,063.0	100.0%

Interest income increased by 16.4% from RMB12,063.0 million in 2016 to RMB14,045.8 million in 2017, primarily due to a 18.9% increase in the average balance of interest-earning assets, from RMB216,462.5 million in 2016 to RMB257,314.8 million in 2017, partially offset by a decrease in the average yield of interest-earning assets from 5.57% in 2016 to 5.46% in 2017. The increase in the average balance of interest-earning assets was in line with the growth of our business. The decrease in the average yield of interest-earning assets was primarily due to (i) a decrease in the average yield of loans and advances to customers, primarily due to increased market competition reflecting increased interest rate liberalization, and (ii) a decrease in the average yield of investment securities and other financial assets, primarily due to lower returns on our investments in non-standard credit assets, as well as our increased investments in debt securities with high liquidity and lower yields.

(A) Interest income from loans and advances to customers

Interest income from loans and advances to customers represented 54.5% and 55.1% of total interest income in 2016 and 2017, respectively. The table below sets forth the average balance, interest income and average yield of loans and advances to customers of the Bank by product for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2017 Average balance[1]	Interest income	Average yield (%)	2016 Average balance	Interest income	Average yield (%)
Corporate loans	**88,204.1**	**5,918.5**	**6.71%**	79,086.4	5,608.4	7.09%
Retail loans	**10,223.8**	**945.1**	**9.24%**	6,339.9	460.6	7.27%
Discounted bills	**17,883.6**	**881.2**	**4.93%**	13,816.5	506.9	3.67%
Total loans and advances to customers	**116,311.5**	**7,744.8**	**6.66%**	99,242.8	6,575.9	6.63%

Note:

(1) Represents the average of daily balances based on our unaudited management accounts.

(B) Interest income from investment securities and other financial assets

Interest income from investment securities and other financial assets increased by 0.4% from RMB4,669.2 million in 2016 to RMB4,687.8 million in 2017, primarily due to a 9.5% increase in the average balance of investment securities and other financial assets, from RMB75,528.1 million in 2016 to RMB82,720.9 million in 2017, partially offset by a decrease in the average yield of investment securities and other financial assets, from 6.18% in 2016 to 5.67% in 2017. The increase in average balance was primarily due to our increased investments in financial assets to diversify our asset portfolio. The decrease in average yield was primarily due to (i) lower returns on our investments in non-standard credit assets, and (ii) our increased investments in debt securities with high liquidity and lower yields.

(C) Interest income from deposits with banks

Interest income from deposits with banks increased by 115.0% from RMB453.3 million in 2016 to RMB974.5 million in 2017, primarily due to a 41.9% increase in the average balance of deposits with banks, from RMB18,758.3 million in 2016 to RMB26,615.8 million in 2017, and an increase in the average yield of deposits with banks, from 2.42% in 2016 to 3.66% in 2017. The increase in average balance was due to our increased investments in deposits with banks based on changes in interbank money market interest rates to manage our liquidity. The increase in average yield was primarily due to higher market interest rates reflecting tightened market liquidity, which in turn resulted in an increase in returns from deposits with other banks.

(D) Interest income from financial assets held under resale agreements and placements with Banks and other financial institutions

Interest income from financial assets held under resale agreements and placements with banks and other financial institutions increased by 1,042.3% from RMB22.0 million in 2016 to RMB251.3 million in 2017, primarily due to a 715.6% increase in the average balance of financial assets held under resale agreements and placements with banks and other financial institutions, from RMB820.6 million in 2016 to RMB6,692.5 million in 2017, and an increase in the average yield of financial assets held under resale agreements and placements with banks and other financial institutions, from 2.68% in 2016 to 3.75% in 2017. The increase in average balance was primarily because we entered into more reverse repurchase transactions to manage liquidity and earn returns. The increase in average yield was primarily due to higher market interest rates reflecting tightened market liquidity, which in turn resulted in an increase in returns from reverse repurchase transactions.

(E) Interest income from deposits with the central bank

Interest income from deposits with the central bank increased by 13.1% from RMB342.6 million in 2016 to RMB387.4 million in 2017, primarily due to a 12.9% increase in the average balance of deposits with the central bank, from RMB22,112.7 million in 2016 to RMB24,974.1 million in 2017. The increase in average balance was primarily due to increased statutory deposit reserves resulting from the continued growth in deposits from customers.

(iii) Interest expense

The table below sets forth the principal components of interest expense of the Bank for the periods indicated.

	Year ended December 31,			
	2017		2016	
(Expressed in millions of RMB, unless otherwise stated)	**Amount**	**% of total**	Amount	% of total
Deposits from customers	**3,532.7**	**53.9%**	2,888.1	53.6%
Financial assets sold under repurchase agreements and placements from banks and other financial institutions	**239.1**	**3.6%**	93.6	1.7%
Debt securities issued	**946.0**	**14.4%**	445.8	8.3%
Deposits from banks and other financial institutions	**1,712.5**	**26.1%**	1,817.9	33.7%
Borrowings from the central bank	**130.5**	**2.0%**	147.4	2.7%
Total	**6,560.8**	**100.0%**	5,392.8	100.0%

Interest expense increased by 21.7% from RMB5,392.8 million in 2016 to RMB6,560.8 million in 2017, primarily due to a 20.1% increase in the average balance of interest-bearing liabilities, from RMB200,961.9 million in 2016 to RMB241,380.1 million in 2017, partially offset by an increase in the average cost of interest-bearing liabilities, from 2.68% in 2016 to 2.72% in 2017. The increase in the average balance of interest-bearing liabilities was primarily due to the increases in customer deposits and repurchase transactions and our issuance of debt securities. The increase in the average cost of interest-bearing liabilities was primarily due to higher market interest rates.

(A) Interest expense on deposits from customers

Interest expense on deposits from customers increased by 22.3% from RMB2,888.1 million in 2016 to RMB3,532.7 million in 2017, primarily due to a 24.4% increase in the average balance of deposits from customers, from RMB142,794.6 million in 2016 to RMB177,607.9 million in 2017, partially offset by a decrease in the average cost of deposits from customers, from 2.02% in 2016 to 1.99% in 2017. The decrease in the average cost of deposits from customers was primarily due to lower interest rates offered for our deposit products rolled over at maturity resulting from reductions in PBoC benchmark interest rates in 2014 and 2015.

(B) Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions

Interest expense on financial assets sold under repurchase agreements and placements from banks and other financial institutions increased by 155.4% from RMB93.6 million in 2016 to RMB239.1 million in 2017, primarily due to a 95.0% increase in the average balance of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from RMB4,051.4 million in 2016 to RMB7,899.0 million in 2017, and an increase in the average cost of financial assets sold under repurchase agreements and placements from banks and other financial institutions, from 2.31% in 2016 to 3.03% in 2017. The increase in average balance was primarily because we entered into more repurchase transactions to diversify our financing channels. The increase in average cost was primarily due to higher market interest rates reflecting tightened market liquidity, which in turn led to an increase in the cost of repurchase transactions.

(C) Interest expense on debt securities issued

Interest expense on debt securities issued increased by 112.2% from RMB445.8 million in 2016 to RMB946.0 million in 2017, primarily due to a 63.2% increase in the average balance of debt securities issued, from RMB12,331.4 million in 2016 to RMB20,126.6 million in 2017 and an increase in the average cost of debt securities issued, from 3.62% in 2016 to 4.70% in 2017. The increase in average balance was primarily due to our issuance of financial bonds in an aggregate principal amount of RMB4,500.0 million and interbank certificates in an aggregate principal amount of RMB44,980.0 million. The increase in average cost was primarily due to our issuance of mid- and long-term financial bonds which had relatively higher interest rates, and an increase in the interest rates of interbank certificates reflecting higher market interest rates.

(D) Interest expense on deposits from banks and other financial institutions

Interest expense on deposits from banks and other financial institutions decreased by 5.8% from RMB1,817.9 million in 2016 to RMB1,712.5 million in 2017, primarily due to a 14.2% decrease in the average balance of deposits from banks and other financial institutions, from RMB37,089.3 million in 2016 to RMB31,807.2 million in 2017, primarily because we reduced fund raising through deposits from banks and other financial institutions as a result of increased deposits from customers and our issuance of interbank certificates and financial bonds. In 2016 and 2017, the market interest rates increased, liquidity tightened, and the average cost of deposits from banks and other financial institutions increased from 4.9% to 5.38%.

(E) Interest expense on borrowings from the central bank

Interest expense on borrowings from the central bank decreased by 11.5% from RMB147.4 million in 2016 to RMB130.5 million in 2017, primarily due to a 16.1% decrease in the average balance of borrowings from the central bank, from RMB4,695.2 million in 2016 to RMB3,939.4 million in 2017, primarily due to decrease in business. The average cost of borrowings from the central bank remained relatively stable at 3.14% and 3.31% in 2016 and 2017, respectively.

(iv) Net interest spread and net interest margin

Net interest spread decreased from 2.89% in 2016 to 2.74% in 2017, primarily due to a decrease in average yield of total interest-earning assets, from 5.57% to 5.46%, primarily due to (i) a decrease in the average yield of loans and advances to customers, primarily due to increased market competition, and (ii) a decrease in the average yield of investment securities and other financial assets, primarily due to lower returns on our investments in non-standard credit assets, as well as our increased investments in debt securities with high liquidity and lower yields. The decrease was partially offset by an increase in the average cost of total interest-bearing liabilities, from 2.68% to 2.72%, primarily due to higher market interest rate.

Net interest margin decreased from 3.08% in 2016 to 2.91% in 2017, primarily attributable to the growth in the daily average balance of interest-earning assets driven by the growth in our business, which outpaced the growth in net interest income.

(v) Non-interest income

(A) Net fee and commission income

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2017	2016	Increase or decrease	Percentage change (%)
Fee and commission income				
Wealth management service fees	**193.9**	125.0	68.9	55.1%
Agency service fees	**144.4**	99.6	44.8	45.0%
Settlement and clearing fees	**53.0**	41.3	11.7	28.3%
Bank acceptance bill service fees	**14.7**	31.2	(16.5)	(52.9)%
Letters of guarantee fees	**8.4**	5.7	2.7	47.4%
Others[1]	**48.4**	24.6	23.8	96.7%
Subtotal	**462.8**	327.4	135.4	41.4%
Fee and commission expenses	**(86.1)**	(71.1)	(15.0)	21.1%
Net fee and commission income	**376.7**	256.3	120.4	47.0%

Note:

(1) Primarily include guarantee fees and advisory service income.

Net fee and commission income increased by 47.0% from RMB256.3 million in 2016 to RMB376.7 million in 2017, primarily due to increases in wealth management service fees, agency service fees and settlement and clearing fees.

Fee and commission expenses mainly included settlement and clearing fees paid to third parties and debit card service fees. Fee and commission expenses increased by 21.1% from RMB71.1 million in 2016 to RMB86.1 million in 2017, primarily due to increases in debit cards issued and a higher volume of debit card transactions, which led to an increase in relevant expenses.

(B) Net trading losses

Net trading losses primarily included gains from selling, and the fair value changes of, financial assets held for trading. We had net trading losses of RMB8.0 million and RMB21.9 million in 2016 and 2017, primarily reflecting the fluctuations in market interest rates.

(C) Net gains/(losses) from investment securities and other financial assets

The net gains/(losses) from investment securities and other financial assets included net gains/(losses) from selling investment securities and other financial assets and revaluation gains arising from the reclassification of other comprehensive income to gains or losses upon the disposal of assets. The Bank did not dispose of any investment securities in 2016. The Bank had net gains from selling investment securities and other financial assets of RMB116.9 million in 2017.

(D) Net exchange (losses)/gains

Net exchange (losses)/gains mainly included net gains arising out of foreign exchange settlement and foreign exchange transactions. We had net exchange gains of RMB9.9 million in 2016 and net exchange losses of RMB13.2 million in 2017, primarily reflecting fluctuations in exchange rates.

(E) Other operating income

Other operating income mainly included government subsidies and the short-term leasing and disposal income from fixed assets and mortgaged assets. Other operating income increased by 156.5% from RMB42.5 million in 2016 to RMB109.0 million in 2017. This mainly reflects the increase in government subsidies and the Bank's commitment to developing its agriculture-related loan transactions and its disposal of certain repossessed assets.

(vi) Operating expenses

Operating expenses increased by 7.8% from RMB1,903.8 million in 2016 to RMB2,052.2 million in 2017, which remained relatively stable.

The table below sets forth the principal components of operating expense of the Bank for the periods indicated.

	Year ended December 31,			
(Expressed in millions of RMB, unless otherwise stated)	**2017**	2016	Increase or decrease	Percentage change (%)
Staff costs	**1,157.3**	1,007.1	150.2	14.9%
General management and administrative expenses	**431.0**	433.1	(2.1)	(0.5)%
Property and equipment expenses	**409.3**	313.7	95.6	30.5%
Business tax and surcharge	**54.6**	149.9	(95.3)	(63.6)%
Total	**2,052.2**	1,903.8	148.4	7.8%
Cost-to-income ratio[1]	**24.81%**	25.16%	(0.35%)	(1.4)%

Note:

(1) Calculated by dividing total operating expenses (net of business tax and surcharge) by total operating income.

(A) Staff costs

The table below sets forth the components of staff cost for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31,			
	2017	2016	Increase or decrease	Percentage Change (%)
Salaries and bonuses	**869.7**	789.1	80.6	10.2%
Social insurance	**183.0**	117.5	65.5	55.7%
Housing allowances	**41.9**	36.7	5.2	14.2%
Staff welfares	**36.3**	34.3	2.0	5.8%
Labour union and staff education expenses	**23.8**	15.3	8.5	55.6%
Others	**2.6**	14.2	(11.6)	(81.7)%
Staff costs	**1,157.3**	1,007.1	150.2	14.9%

Staff cost increased by 14.9% from RMB1,007.1 million in 2016 to RMB1,157.3 million in 2017, primarily reflecting a corresponding increase in the number of employees due to the expansion of our business.

(B) Property and equipment expenses

Property and equipment expenses increased by 30.5% from RMB313.7 million in 2016 to RMB409.3 million in 2017. The increase in property and equipment expenses mainly reflected an increase in depreciation on owned properties of our newly established branches due to our branch network expansion, and an increase in depreciation on equipment due to our development of new IT systems.

(C) General management and administrative expenses

General management and administrative expenses primarily included business promotion fees, administrative fees, transportation fee and repair expenses. General management and administrative expenses remained relatively stable at RMB433.1 million and RMB431.0 million in 2016 and 2017.

(D) Business tax and surcharges

The Bank pays taxes on interest income from loans, fee and commission income and securities trading gains. Business tax and surcharges of the Bank decreased by 63.6% from RMB149.9 million in 2016 to RMB54.6 million in 2017, primarily because the Bank began to pay VAT in lieu of business tax in May 2016 as a result of China's pilot reform for the transition from business tax to VAT.

(vii) Impairment losses on assets

The table below sets forth the principal components of impairment losses on assets for the periods indicated.

(Expressed in millions of RMB, unless otherwise stated)	Year ended December 31, 2017	2016	Increase or decrease	Percentage change (%)
Loans and advances to customers	**1,262.5**	1,336.2	(73.7)	(5.5)%
Debt securities classified as receivables	**246.8**	1,162.0	(915.2)	(78.8)%
Held-to-maturity investments	**(2.6)**	3.8	(6.4)	(168.4)%
Fixed assets	**0.6**	—	0.6	—
Other receivables[1]	**15.7**	2.4	13.3	554.2%
Impairment losses on assets	**1,523.0**	2,504.4	(981.4)	(39.2)%

Note:

(1) Primarily include interest receivables, advance payment and repossessed assets.

Impairment losses on assets decreased by 39.2% from RMB2,504.4 million in 2016 to RMB1,523.0 million in 2017, mainly due to decreases in provisions for impairment of loans and advances to customers and debt securities classified as receivables.

Impairment losses on loans and advances to customers decreased by 5.5% from RMB1,336.2 million in 2016 to RMB1,262.5 million in 2017, mainly due to a decrease in new non-performing loans in 2017 as compared to 2016.

Impairment losses on debt securities classified as receivables decreased by 78.8% from RMB1,162.0 million in 2016 to RMB246.8 million in 2017. It is mainly due to a decrease in business for debt securities classified as receivables as compared to 2016.

(viii) Income tax expense

Income tax expense increased by 73.3% from RMB643.6 million in 2016 to RMB1,115.4 million in 2017. The increase in income tax expense was in line with the growth of our business. Effective tax rates were 25.1% and 24.9% in 2016 and 2017, respectively.

(b) Analysis of the Consolidated Statement of Financial Position

(i) Assets

As of December 31, 2017 and 2016, the total assets of the Bank were RMB271,147.6 million and RMB245,056.4 million, respectively. Major components of total assets include (i) loans and advances to customers; (ii) investment securities and other financial assets; (iii) deposits with banks; (iv) cash and deposits with the central bank; and (v) financial assets held under resale agreements. The table below sets forth the components of total assets as of the dates indicated.

	As of December 31, 2017		As of December 31, 2016	
(Expressed in millions of RMB, unless otherwise stated)	**Amount**	**% of total**	Amount	% of total
Assets				
Loans and advances to customers, gross	**130,283.6**	**48.1%**	107,855.1	44.0%
Provision for impairment losses	**(5,029.0)**	**(1.9)%**	(3,756.0)	(1.5)%
Loans and advances to customers, net	**125,254.6**	**46.2%**	104,099.1	42.5%
Investment securities and other financial assets[(1)]	**70,105.5**	**25.9%**	87,116.2	35.5%
Deposits with banks	**30,811.7**	**11.4%**	24,571.9	10.0%
Cash and deposits with the central bank	**29,084.4**	**10.7%**	25,079.1	10.2%
Financial assets held under resale agreements	**9,819.9**	**3.6%**	498.1	0.2%
Other assets[(2)]	**6,071.5**	**2.2%**	3,692.0	1.6%
Total assets	**271,147.6**	**100.0%**	245,056.4	100.0%

Notes:

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

(2) Primarily consist of property and equipment, deposit paid for acquisitions of premises, deferred tax assets, interests receivable and interests in an associate.

(A) Loans and advances to customers

As of December 31, 2017, the total loans and advances to customers of the Bank were RMB130,283.6 million, representing an increase of 20.8% as compared to the end of last year. Net loans and advances to customers accounted for 46.2% of the total assets of the Bank, representing an increase of approximately 3.7 percentage points as compared to the end of last year.

The table below sets forth loans and advances to customers by product as of the dates indicated.

	As of December 31, 2017		As of December 31, 2016	
(Expressed in millions of RMB, unless otherwise stated)	**Amount**	**% of total**	Amount	% of total
Corporate loans	**97,253.7**	**74.7%**	85,271.6	79.1%
Retail loans	**14,638.1**	**11.2%**	7,901.9	7.3%
Discounted bills	**18,391.8**	**14.1%**	14,681.6	13.6%
Total loans and advances to customers	**130,283.6**	**100.0%**	107,855.1	100.0%

Loans and advances to customers are the largest component of total assets. The Bank offers a variety of loan products, substantially all of which are denominated in Renminbi. Loans and advances to customers, net of provisions for impairment losses, represented 46.2% and 42.5% of total assets as of December 31, 2017 and 2016, respectively.

The Bank's corporate loans increased by 14.1% from RMB85,271.6 million as of December 31, 2016 to RMB97,253.7 million as of December 31, 2017, primarily due to the growth of the market demand for corporate loans.

The Bank's retail loans mainly comprise of personal business loans, personal consumption loans and residential and commercial mortgage loans. The Bank's retail loans increased by 85.2% from RMB7,901.9 million as of December 31, 2016 to RMB14,638.1 million as of December 31, 2017, primarily due to (i) the Bank's efforts to support the financing needs of SME business owners (including sole proprietors); (ii) the expansion of the distribution network; and (iii) the adjustment of the Bank's loan portfolio to increase the proportion of long-term loans (including residential and commercial mortgage loans).

Loans and advances to customers by type of collateral

The table below sets forth loans and advances to customers by type of collateral as of the dates indicated. If a loan is secured by multiple forms of collateral, the classification is based on the primary form of collateral.

(Expressed in millions of RMB, unless otherwise stated)	**As of December 31, 2017**		As of December 31, 2016	
	Amount	**% of total**	Amount	% of total
Collateralized loans	**58,395.8**	**44.8%**	45,547.3	42.2%
Pledged loans	**8,977.9**	**6.9%**	8,436.1	7.8%
Guaranteed loans	**50,146.6**	**38.5%**	42,583.0	39.5%
Unsecured loans	**12,763.3**	**9.8%**	11,288.7	10.5%
Total loans and advances to customers	**130,283.6**	**100.0%**	107,855.1	100.0%

As of December 31, 2016 and 2017, collateralized loans, pledged loans and guaranteed loans in the aggregate represented 89.5% and 90.2% of total loans and advances to customers, respectively. Collateralized loans and pledged loans are subject to loan-to-value ratio limits based on the type of collateral. We usually only accept guarantees provided by listed companies or guarantee companies. We evaluate a guarantee company based on its size, credit history and risk-resistance level, as well as the value and quality of any collateral provided by the borrower.

Unsecured loans increased by 13.1% from RMB11,288.7 million as of December 31, 2016 to RMB12,763.3 million as of December 31, 2017. The increase of credit loans was primarily due to the Bank's launching certain online loan products with lower risk by utilizing big data resources.

Change to the provisions for impairment losses on loans and advances to customers

The table below sets forth the change to the provision for impairment losses on loans and advances to customers as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	**2017**	2016
As of January 1	**3,756.0**	2,419.8
Charge for the year	**1,262.5**	1,336.2
Reversal of write-offs for the previous years	**10.5**	—
As of December 31	**5,029.0**	3,756.0

Provisions for impairment losses on loans increased by 33.9% from RMB3,756.0 million as of December 31, 2016 to RMB5,029.0 million as of December 31, 2017, primarily due to the increase in the Bank's provision for impairment losses to counter against uncertainties arising from macroeconomic operation.

(B) Investment securities and other financial assets

As of December 31, 2017 and 2016, the Bank's investment securities and other financial assets were RMB70,105.5 million and RMB87,116.2 million, representing 25.9% and 35.5% of total assets, respectively.

Investment securities and other financial assets primarily include debt securities, asset management plans issued by other financial institutions, trust plans, wealth management products and fund products. Investment securities and other financial assets decreased by RMB17,010.7 million from RMB87,116.2 million as of December 31, 2016 to RMB70,105.5 million as of December 31, 2017. This decrease primarily reflected the adjustment of our investment portfolio based on investment considerations, market conditions and other factors.

(ii) Liabilities

As of December 31, 2017 and 2016, the total liabilities of the Bank were RMB254,534.6 million and RMB231,712.7 million, respectively. Major components of the liabilities include (i) deposits from customers; (ii) debt securities issued; (iii) financial assets sold under repurchase agreements; and (iv) deposits from banks and other financial institutions. The table below sets forth the components of total liabilities as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	**As of December 31, 2017**		As of December 31, 2016	
	Amount	**% of total**	Amount	% of total
Deposits from customers	**192,230.6**	**75.5%**	171,165.3	73.9%
Deposits from banks and other financial institutions	**20,178.4**	**7.9%**	35,777.4	15.4%
Financial assets sold under repurchase agreements	**5,817.5**	**2.3%**	4,580.5	2.0%
Debt securities issued	**23,960.8**	**9.4%**	10,134.9	4.4%
Borrowings from the central bank	**5,290.4**	**2.1%**	5,692.9	2.4%
Placements with banks and other financial institutions	**1,050.0**	**0.4%**	—	—
Other liabilities[1]	**6,006.9**	**2.4%**	4,361.7	1.9%
Total liabilities	**254,534.6**	**100.0%**	231,712.7	100.0%

Note:

(1) Primarily include interest payable, taxes payable, staff costs and deferred tax liabilities.

(A) Deposits from customers

Deposits from customers are the largest component of total liabilities. As of December 31, 2016 and 2017, deposits from customers represented 73.9% and 75.5% of the total liabilities, respectively.

We offer RMB-denominated demand and time deposit products to corporate and retail customers. The table below sets forth deposits from customers by product and customer type as of the dates indicated.

	As of December 31, 2017		As of December 31, 2016	
(Expressed in millions of RMB, unless otherwise stated)	**Amount**	**% of total**	Amount	% of total
Corporate deposits				
Demand deposits	**67,636.1**	**35.2%**	56,499.7	33.0%
Time deposits	**14,793.2**	**7.7%**	20,603.3	12.0%
Subtotal	**82,429.3**	**42.9%**	77,103.0	45.0%
Retail deposits				
Demand deposits	**22,077.3**	**11.5%**	20,115.2	25.4%
Time deposits	**59,921.8**	**31.2%**	43,494.8	11.8%
Subtotal	**81,999.1**	**42.7%**	63,610.0	37.2%
Pledged deposits	**17,447.3**	**9.0%**	18,059.6	10.6%
Others[(1)]	**10,354.9**	**5.4%**	12,392.7	7.2%
Total deposits from customers	**192,230.6**	**100.0%**	171,165.3	100.0%

Note:

(1) Deposits raised from other investment vehicles.

Total deposits from customers increased by 12.3% from RMB171,165.3 million as of December 31, 2016 to RMB192,230.6 million as of December 31, 2017. The increases in deposits from customers were primarily attributable to our enhanced marketing efforts to grow corporate deposits and retail deposits.

(B) Debts securities issued

In August 2017, we issued financial bonds in an aggregate principal amount of RMB1,500.0 million. The bonds have a term of three years and bear an interest rate of 4.85% per annum.

In March 2017, we issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of three years and bear an interest rate of 4.67% per annum.

In April 2017, we issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of five years and bear an interest rate of 5.00% per annum.

In May 2017, we issued financial bonds in an aggregate principal amount of RMB1,000.0 million. The bonds have a term of three years and bear an interest rate of 4.90% per annum.

In December 2015, we issued tier-two capital bonds in an aggregate principal amount of RMB3,200.0 million. The bonds have a term of 10 years and bear an interest rate of 5.10% per annum. We have an option to redeem the bonds on December 11, 2020 at par.

From January 1, 2016 to December 31, 2016, we issued several tranches of zero-coupon interbank certificates in an aggregate principal amount of RMB35,890.0 million. These interbank certificates have terms of one month to one year and bear effective interest rates between 2.55% and 4.82% per annum.

From January 1, 2017 to December 31, 2017, we issued several tranches of zero-coupon interbank certificates in an aggregate principal amount of RMB44,980.0 million. These interbank certificates have terms of one month to one year and bear effective interest rates between 3.10% and 5.31% per annum.

(iii) Shareholders' equity

The table below sets forth the change in shareholders' equity of the Bank as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	**As of December 31, 2017**		As of December 31, 2016	
	Amount	**% of total**	Amount	% of total
Share capital	**7,526.0**	**45.3%**	7,526.0	56.4%
Capital reserve	**1,767.7**	**10.6%**	1,765.2	13.2%
Defined benefit scheme reserve	**(0.7)**	—	(4.1)	(0.0)%
Investment revaluation reserve	**(125.3)**	**(0.8)%**	(27.1)	(0.2)%
Surplus reserve	**893.0**	**5.4%**	557.7	4.2%
General reserve	**3,631.7**	**21.9%**	3,226.1	24.2%
Retained earnings	**2,889.1**	**17.4%**	271.4	2.0%
Non-controlling interests	**31.8**	**0.2%**	28.4	0.2%
Total equity	**16,613.0**	**100.0%**	13,343.6	100.0%

(c) Asset quality analysis

(i) Breakdown of loans by the five-category classification

For the Bank, the non-performing loans are classified into loans and advances to customers of substandard, doubtful and loss. As of December 31, 2017, the Bank's non-performing loans amounted to RMB2,265.3 million. The table below sets forth loans and advances to customers by loan classification as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	**As of December 31, 2017**		As of December 31, 2016	
	Amount	**% of total**	Amount	% of total
Normal	**120,835.5**	**92.7%**	103,799.9	96.2%
Special mention	**7,182.8**	**5.5%**	2,106.3	2.0%
Substandard	**780.2**	**0.6%**	749.5	0.7%
Doubtful	**858.6**	**0.7%**	1,014.5	0.9%
Loss	**626.5**	**0.5%**	184.9	0.2%
Total loans and advances to customers	**130,283.6**	**100.0%**	107,855.1	100.0%
Non-performing loans and non-performing loan ratio[(1)]	**2,265.3**	**1.74%**	1,948.9	1.81%

Note:

(1) Calculated by dividing non-performing loans by total loans and advances to customers.

As of December 31, 2017 and 2016, the non-performing loan ratios of the Bank were 1.74% and 1.81%, respectively, which remained relatively stable.

(ii) Concentration of loans

(A) Concentration by industry and distribution of non-performing loans

The table below sets forth the breakdown of loans and non-performing loans by industry as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017				As of December 31, 2016			
	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio	Loan amount	% of total	Non-performing loan amount	Non-performing loan ratio
Corporate loans								
Wholesale and retail	**18,232.4**	**14.0%**	**783.7**	**4.30%**	14,972.7	13.9%	661.9	4.42%
Manufacturing	**15,743.3**	**12.1%**	**346.4**	**2.20%**	14,727.8	13.7%	482.8	3.28%
Agriculture, forestry, animal husbandry and fishing	**15,728.2**	**12.1%**	**399.1**	**2.54%**	14,226.4	13.2%	223.8	1.57%
Construction	**12,101.3**	**9.3%**	**122.0**	**1.01%**	9,248.9	8.6%	124.9	1.35%
Real estate	**13,685.8**	**10.5%**	**—**	**—**	8,819.3	8.2%	12.5	0.14%
Mining	**7,087.5**	**5.4%**	**208.0**	**2.93%**	6,814.5	6.3%	103.0	1.51%
Water, environment and public facility management	**3,133.2**	**2.4%**	**—**	**—**	3,797.1	3.5%	—	—
Culture, sports and entertainment	**2,628.0**	**2.0%**	**2.3**	**0.09%**	2,387.6	2.2%	2.4	0.10%
Leasing and business services	**1,695.6**	**1.3%**	**27.0**	**1.59%**	3,278.8	3.0%	21.0	0.64%
Electricity, heating power, gas and water production and supply	**2,545.3**	**2.0%**	**30.0**	**1.18%**	1,892.5	1.8%	2.1	0.11%
Transportation, storage and postal services	**1,173.8**	**0.9%**	**38.3**	**3.26%**	2,149.1	2.0%	51.7	2.41%
Education	**1,384.6**	**1.0%**	**—**	**—**	1,120.6	1.0%	5.0	0.45%
Accommodation and catering	**1,172.3**	**0.9%**	**60.8**	**5.19%**	1,076.9	1.0%	59.7	5.54%
Financial	**3.0**	**0.0%**	**—**	**—**	0.6	0.0%	—	—
Health and social services	**463.4**	**0.4%**	**—**	**—**	408.8	0.3%	2.8	0.68%
Residents and other services	**224.3**	**0.2%**	**2.5**	**1.11%**	199.2	0.2%	—	—
Scientific research , technical service and geological prospecting	**126.0**	**0.1%**	**—**	**—**	78.6	0.1%	—	—
Information transmission, computer service and software	**74.3**	**0.1%**	**3.0**	**4.04%**	63.7	0.1%	3.0	4.71%
Public administration, social security and social organizations	**51.4**	**—**	**—**	**—**	8.5	0.0%	—	—
Retail loans	**14,638.1**	**11.2%**	**242.2**	**1.65%**	7,901.9	7.3%	192.3	2.43%
Discounted bills	**18,391.8**	**14.1%**	**—**	**—**	14,681.6	13.6%	—	—
Total amount	**130,283.6**	**100.0%**	**2,265.3**	**1.74%**	107,855.1	100.0%	1,948.9	1.81%

Note: Non-performing loan ratio of an industry is calculated by dividing the balance of non-performing loans of the industry by the balance of loans granted to the industry.

Loans to borrowers in the wholesale and retail, manufacturing, agriculture, forestry, animal husbandry and fishery, construction, and real estate represented the largest components of the Bank's corporate loan portfolio. Loans to these industries accounted for 72.7% and 77.6% of total corporate loans as of December 31, 2016 and 2017, respectively.

As of December 31, 2017, non-performing loans of the Bank's corporate loans were mainly concentrated in the accommodation and catering industry and the wholesale and retail industry, with the ratio of non-performing loans of 5.19% and 4.30%, respectively.

(B) Borrower concentration

Indicators of concentration

Major regulatory indicators	Regulatory standard	**As of December 31, 2017**	As of December 31, 2016
Loan concentration ratio for the largest single customer (%)	≦ 10	**4.56%**	9.31%
Loan concentration ratio for the top ten customers (%) . . .	≦ 50	**35.35%**	40.18%

Note: The data above are calculated in accordance with the formula promulgated by the China Banking Regulatory Commission (the "**CBRC**").

Loans to the 10 largest single borrowers

The following table sets forth the 10 largest single borrowers (excluding group borrowers) as reported to the PRC regulator as of December 31, 2017 and the balances of loans to these borrowers. All of these loans were classified as normal.

(Expressed in millions of RMB, unless otherwise stated)		As of December 31, 2017		
Customers	**Industries involved**	**Amount**	**% of total loans**	**% of regulatory capital**
Borrower A	Mining	100,000.0	0.8%	4.56%
Borrower B	Leasing and business services	96,784.0	0.7%	4.41%
Borrower C	Manufacturing	87,640.0	0.7%	3.99%
Borrower D	Real estate	80,000.0	0.6%	3.64%
Borrower E	Construction	80,000.0	0.6%	3.64%
Borrower F	Culture, sports and entertainment	71,660.0	0.6%	3.26%
Borrower G	Mining	70,000.0	0.5%	3.19%
Borrower H	Construction	69,900.0	0.5%	3.18%
Borrower I	Manufacturing	60,000.0	0.5%	2.74%
Borrower J	Culture, sports and entertainment	60,000.0	0.5%	2.74%
Total		**775,984.0**	**6.0%**	**35.35%**

(C) Non-performing loans by product

The table below sets forth loans and non-performing loans by product type as of the dates indicated.

	As of December 31, 2017			As of December 31, 2016		
(Expressed in millions of RMB, unless otherwise stated)	**Loan amount**	**Non-performing loan amount**	**Non-performing loan ratio[1] (%)**	Loan amount	Non-performing loan amount	Non-performing loan ratio[1] (%)
Corporate loans						
Fixed asset loans.	**32,509.8**	**150.0**	**0.46%**	25,102.0	32.5	0.13%
Working capital loans.	**64,473.9**	**1,714.3**	**2.66%**	59,994.1	1,548.5	2.58%
Others[2]	**270.0**	**158.8**	**58.81%**	175.5	175.6	100.00%
Sub-total	**97,253.7**	**2,023.1**	**2.08%**	85,271.6	1,756.6	2.06%
Retail loans						
Personal business loans	**6,693.4**	**215.2**	**3.21%**	3,696.7	167.3	4.53%
Personal consumption loans	**3,962.7**	**21.5**	**0.54%**	1,704.0	8.4	0.49%
Residential and commercial mortgage loans	**3,982.0**	**5.5**	**0.14%**	2,501.2	16.6	0.67%
Sub-total	**14,638.1**	**242.2**	**1.65%**	7,901.9	192.3	2.43%
Discounted bills.	**18,391.8**	**—**	**—**	14,681.6	—	—
Total non-performing loans. . . .	**130,283.6**	**2,265.3**	**1.74%**	107,855.1	1,948.9	1.81%

Notes:

(1) Calculated by dividing non-performing loans by loans and advances to customers of each product category.

(2) Primarily consist of advances for bank acceptance bill.

The non-performing loan ratio of corporate loans increased from 2.06% as of December 31, 2016 to 2.08% as of December 31, 2017, which remained relatively stable.

The non-performing loan ratio of retail loans decreased from 2.43% as of December 31, 2016 to 1.65% as of December 31, 2017, primarily due to our enhanced efforts to recover loans from delinquent customers and customers with potential risks.

(D) Loan aging schedule

The table below sets forth the loan aging schedule for loans and advances to customers as of the dates indicated.

	As of December 31, 2017		As of December 31, 2016	
(Expressed in millions of RMB, unless otherwise stated)	**Amount**	**% of total**	Amount	% of total
Loans not overdue	**124,916.9**	**95.9%**	105,591.4	97.9%
Loans past due for:				
1 to 90 days	**2,042.1**	**1.6%**	390.7	0.4%
91 days to 1 year	**1,521.2**	**1.2%**	1,245.0	1.1%
1 to 3 years	**1,356.0**	**1.0%**	593.6	0.6%
3 years or more	**447.4**	**0.3%**	34.4	0.0%
Subtotal	**5,366.7**	**4.1%**	2,263.7	2.1%
Total loans and advances to customers	**130,283.6**	**100.0%**	107,855.1	100.0%

(d) Segments information

(i) Summary of business segment

We operate three principal lines of business: corporate banking, retail banking and financial market operations. The table below sets forth the operating income for each of our principal business segments for the periods indicated.

	Year ended December 31,			
	2017		2016	
(Expressed in millions of RMB, unless otherwise stated)	**Amount**	**% of total**	Amount	% of total
Corporation banking	**4,455.6**	**55.3%**	4,077.7	58.5%
Retail banking	**1,016.3**	**12.6%**	767.2	11.0%
Financial market operations	**2,464.3**	**30.6%**	2,050.8	29.4%
Others(1)	**116.3**	**1.5%**	75.2	1.1%
Total operating income	**8,052.5**	**100.0%**	6,970.9	100.0%

Note:

(1) Primarily represent assets, liabilities, income and expenses which cannot be directly attributable or cannot be allocated to a segment on a reasonable basis.

(ii) Summary of geographical segment information.

No geographical information is presented as most of the Group's operations are conducted in Gansu Province of the PRC and all non-current assets are located and therefore revenue is derived from activities in Gansu province of the PRC.

(e) Off-balance sheet commitments

Off-balance sheet commitments primarily consist of approved loans with signed contracts, bank acceptances, letters of guarantee, operating lease commitments and capital commitments. The table below sets forth our contractual amounts of off-balance sheet commitments as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017	As of December 31, 2016
Credit commitments:		
Loan commitments	**24.0**	—
Bank acceptances[1]	**29,352.8**	31,392.8
Letters of guarantee[2]	**516.2**	431.5
Subtotal	**29,893.0**	31,824.3
Operating lease commitments	**372.9**	447.3
Capital commitments	**298.8**	142.5
Total	**30,564.7**	32,414.1

Notes:

(1) Bank acceptances refer to our undertakings to pay bank bills drawn on its customers.

(2) We issue letters of credit and guarantee to third parties to guarantee its customers' contractual obligations.

Off-balance sheet commitments decreased by 5.7% from RMB32,414.1 million as of December 31, 2016 to RMB30,564.7 million as of December 31, 2017. The decreases in off- balance sheet commitments were primarily due to the decreases in bank acceptance bills issued.

3.4 Business Review

(a) Corporate banking

We offer corporate customers a broad range of financial products and services, including loans, discounted bills, deposits and fee- and commission-based products and services. Our corporate customers primarily include government agencies, public organizations, SOEs, private enterprises and foreign-invested enterprises. We are committed to serving local customers with a focus on small and micro enterprises.

In addition, we committed to seeking to develop long-term relationships with customers by closely monitoring their financial needs and offering tailored financial solutions. As of December 31, 2017, we had 4,325 corporate borrowers with total loans of RMB97,253.7 million, and 52,917 corporate deposit customers with total deposits of RMB82,429.3 million. In 2016 and 2017, operating income from our corporate banking business accounted for 58.5% and 55.3% of our total operating income, respectively. The table below sets forth the financial performance of our corporate banking for the periods indicated.

	Year ended December 31,		
(Expressed in millions of RMB, unless otherwise stated)	**2017**	2016	Percentage change (%)
External interest (expenses)/income, net[1]	**4,821.8**	4,481.6	7.6%
Inter-segment interest income/(expenses), net[2]	**(510.0)**	(541.7)	(5.9)%
Net interest income	**4,311.8**	3,939.9	9.4%
Net fees and commission income	**143.8**	137.8	4.4%
Operating income	**4,455.6**	4,077.7	9.3%
Operating expenses	**(1,135.6)**	(1,113.7)	2.0%
Impairment losses on assets	**(953.3)**	(1,041.9)	(8.5)%
Operating profit	**2,366.7**	1,922.1	23.1%
Share of profit of an associate	**—**	—	—
Profit before tax	**2,366.7**	1,922.1	23.1%

Notes:

(1) Represents net income and expenses from third parties.

(2) Represents inter-segment expenses and consideration of transfer.

(3) Primarily includes government subsidies and income from short-term leases and disposal of fixed assets and repossessed assets.

(i) Corporate loans

Corporate loans constituted the largest component of our loan portfolio. As of December 31, 2017 and 2016, corporate loans amounted to RMB97,253.7 million and RMB85,271.6 million, accounting for 74.7% and 79.1% of our total loans and advances to customers, respectively.

(ii) Discounted bills

We purchase bank and commercial acceptance bills with remaining maturities of up to one year at discounted prices to satisfy the short-term funding needs of banks and corporate customers. As of December 31, 2017 and 2016, discounted bills totaled RMB18,391.8 million and RMB14,681.6 million, accounting for 14.1% and 13.6% of our total loans and advances to customers, respectively.

(iii) Corporate deposits

We accept demand and time deposits denominated in Renminbi and major foreign currencies (including USD, HK dollar and EUR) from corporate customers. As of December 31, 2017 and 2016, corporate deposits totaled RMB82,429.3 million and RMB77,103.0 million, accounting for 42.9% and 45.0% of our total customer deposits, respectively.

(iv) Fee- and commission-based products and services

We offer corporate customers a broad range of fee- and commission-based products and services, primarily including wealth management services, entrusted loans, settlement services and consultation and financial advisory services.

(A) Wealth management services

We offer corporate customers a broad range of wealth management products based on their risk and return preferences. We invest funds from these wealth management products primarily in bonds, interbank deposits, money market instruments and other fixed income products.

In 2017 and 2016, wealth management products sold to corporate customers totaled RMB2,009.9 million and RMB1,516.4 million, respectively.

(B) Entrusted loans

We provide loans to borrowers designated by corporate customers, who determine the use of proceeds, principal amount and interest rates for these loans. We monitor the use of entrusted loans by borrowers and assist corporate customers in recovering these loans.

We charge agency fees based on the principal amount of entrusted loans. Our corporate customers bear the risk of default associated with these loans. In 2017 and 2016, service fees charged to corporate customers for entrusted loans totaled RMB144.4 million and RMB99.6 million respectively.

(C) Settlement services

We offer corporate customers domestic and international settlement services.

Domestic Settlement Services. We provide domestic settlement services in the form of bank acceptance bills, collections and telegraphic transfers. As of December 31, 2017 and 2016, our total domestic settlement transaction volumes were approximately RMB7,910.2 billion and RMB8,344.3 billion, respectively.

International Settlement Services. We obtained approval to provide international settlement services in January 2014. Our international settlement services primarily include remittance, collection, letters of credit and letters of guarantee.

We established cooperative relationships with eighteen overseas corporate customers. As of December 31, 2017 and 2016, our international settlement transaction volumes were US$664 million and US$204.0 million, of which settlement transactions involving Iran had total volumes of US$591 million and US$151.2 million, respectively.

(D) Consulting and financial advisory services

We structure financial solutions and offer advisory services with respect to the economy, financial markets and industry trends for corporate customers. In 2017 and 2016, our fee and commission income from consultation and financial advisory services were RMB0.8 million and RMB2.4 million, respectively.

(E) Other fee- and commission-based products and services

We offer other fee- and commission-based products and services to corporate customers, such as guarantee and foreign exchange services.

(b) Retail banking

We offer retail customers a wide range of financial products and services, including loans, deposits, bank card services and fee- and commission-based products and services. We have a large retail customer base.

As of December 31, 2017, we had 47,702 retail borrowers with total loans of RMB14,638.1 million and over 5.4 million retail deposit customers with total deposits of RMB81,999.1 million. In 2017 and 2016, operating income from our retail banking business accounted for 12.6% and 11.0% of our total operating income, respectively.

We categorize retail banking customers into regular customers (with average financial asset balances of under RMB50,000), wealth management customers (with average financial asset balances of RMB50,000 or above but less than RMB200,000), wealthy customers (with average financial asset balances of RMB200,000 or above but less than RMB3.0 million) and private banking customers (with average financial asset balances of RMB3.0 million or above).

As of December 31, 2017, we had 115,048 wealthy customers and 920 private banking customers. We continue to grow our wealthy customer and private banking customer base by expanding our product and service portfolio. The table below sets forth the financial performance of the Bank's retail banking for the periods indicated.

	Year ended December 31,		
(Expressed in millions of RMB, unless otherwise stated)	**2017**	2016	Percentage change (%)
External interest income/(expenses), net[(1)]	**(1,492.4)**	(1,300.8)	14.7%
Inter-segment interest (expenses)/income, net [(2)]	**2,490.3**	2,097.3	18.7%
Net interest income	**997.9**	796.5	25.3%
Net fee and commission income	**18.4**	(29.3)	162.5%
Operating income	**1,016.3**	767.2	32.5%
Operating expenses	**(259.0)**	(209.5)	23.6%
Impairment losses on assets	**(221.2)**	(152.2)	45.3%
Operating profit	**536.1**	405.5	32.2%
Share of profit of an associate	**—**	—	—
Profit before tax	**536.1**	405.5	32.2%

Notes:

(1) Represents net income and expenses from third parties.

(2) Represents inter-segment expenses and consideration of transfer.

(3) Primarily includes government subsidies and income from short-term leases and disposal of fixed assets and repossessed assets.

(i) Retail loans

We offer retail customers personal business loans, personal consumption loans and personal residential and commercial mortgage loans. As of 31 December, 2017 and 2016, total retail loans were RMB14,638.1 million and RMB7,901.9 million, accounting for 11.2% and 7.3% of our total loans and advances to customers, respectively.

(ii) Retail deposits

We accept demand and time deposits denominated in Renminbi and major foreign currencies from retail customers. As of December 31, 2017 and 2016, retail deposits totaled RMB81,999.1 million and RMB63,610.0 million, accounting for 42.7% and 37.2% of our total customer deposits, respectively.

(iii) Bank card services

(A) Debit cards

We issue debit cards denominated in Renminbi to retail customers holding deposit accounts with us. Customers may use debit cards for a variety of purposes, such as cash deposits and withdrawals, transfers, payments, settlements, consumption, bill payments, financing and wealth management. We provide cardholders with differentiated services by classifying debit cards into basic cards, gold cards, platinum cards and diamond cards based on a bank cardholder's deposit balances.

To expand our customer base and service scope, we issue the following debit cards in cooperation with government agencies and public organizations:

- Social Security Card (社會保障卡): We work with the Department of Human Resources and Social Security of Gansu Province (甘肅省人力資源和社會保障廳) to issue debit cards, which can be used for making social security contributions and social security information inquiries.

- Housing Provident Fund Co-branded Cards (公積金聯名卡): We work with the local housing provident fund management center to issue debit cards, which can be used for withdrawal and transfer of housing provident funds, loan distribution and account inquiries.

- Longyuan Transportation Cards (隴原交通卡): We work with the Gansu Province Expressway Management Bureau to issue IC financial cards, which can be used for paying expressway tolls electronically.

In addition, to enhance our brand recognition, we cooperate with local governments to issue theme cards based on regional characteristics of Gansu province, such as the Golden Tower Golden Poplar Card (金塔金胡楊卡), Xiongguan Card (雄關卡), the Journey of Xuanzang Card (玄奘之路卡) and Long Nan Landscape Card (隴南山水卡). We also cooperate with various institutions in issuing co-branded cards, including the Gansu Police Vocational College Co-branded Card (甘肅警察職業學校聯名卡), Tianshui High School Student Aid Card (天水高中生資助卡) and Qingyang Traffic Police Co-branded Card (慶陽交警聯名卡).

As of December 31, 2017, we had issued approximately 5.88 million debit cards. As of December 31, 2017 and 2016, holders of these debit cards conducted transactions of approximately RMB19,751.3 million and RMB16,639.7 million, respectively.

(B) Credit cards

In August 2013, we obtained approval to issue the Official Financial and Business Card (財政公務卡) to employees that work in budgetary institutions in Gansu province, mainly to cover their daily official expenses, reimbursements and personal consumption needs.

We obtained approval to issue credit cards in June 2016.

(C) POS settlement services

As a payment settlement service provider, we provide selected merchants with transaction fund settlement services. As of December 31, 2017, we had 17,057 selected merchant customers and 23,599 POS terminals.

(iv) Fee- and commission-based products and services

We offer retail customers a wide range of fee- and commission-based products and services, primarily including wealth management services, agency services and payroll and payment agency services.

(A) Wealth Management Services

We offer retail customers wealth management products under our Huifu (匯福) series based on their risk and return preferences. We invest funds from these wealth management products primarily in bonds, interbank deposits, money market instruments and other fixed income products.

In 2017 and 2016, wealth management products sold to retail customers totaled RMB29,572.30 million and RMB32,933.5 million, respectively. As of December 31, 2017, we had over 212,375 retail wealth management clients and the return rate of our wealth management products was between 3.60% to 5.66% in 2017.

(B) Agency services

We sell insurance and precious metal products to retail customers as an agent.

Insurance Products. As of December 31, 2017, we had entered into agency agreements with 6 nationwide insurance companies to promote and distribute their insurance products.

Precious Metal Products. We received approval to distribute precious metals in China in August 2015. In 2017 and 2016, we sold an aggregate of RMB59.3 million and RMB36.0 million of precious metal products, respectively.

In October 2016, Dunhuang Research Academy granted us an exclusive license to jointly develop and sell precious metal products featuring Mogao Grottoes.

In addition, we have completed the development of a fund agent system and fund qualification training for our employees.

(C) Payroll and payment agency services

Payroll Services. We provide payroll services to governmental agencies, public organizations and enterprises customers. As of December 31, 2017, we had over 679,777 payroll customers. In 2017 and 2016, we paid, in the role of paying agent, average monthly salaries of approximately RMB177.2 million and RMB1,407.1 million, respectively.

Payment Agency Services. We offer customers payment agency services related to daily living expenses (such as utilities costs) through our broad distribution network.

(D) Other fee- and commission-based products and services

We offer other fee- and commission-based products and services to retail customers, such as fund transfer, remittance and acceptance services.

(c) Financial market operations

Our financial market operations, which primarily include money market transactions, investment business and wealth management business, are one of our most important revenue sources. In 2017 and 2016, operating income from financial market operations accounted for 30.6% and 29.2% of our total operating income, respectively. The table below sets forth the financial performance of the Bank's financial market operations for the periods indicated.

	Year ended December 31,		
(Expressed in millions of RMB, unless otherwise stated)	**2017**	2016	Percent change (%)
External interest (expenses)/income, net[(1)]	**4,155.6**	3,489.4	19.1%
Inter-segment interest income/(expenses), net[(2)]	**(1,980.3)**	(1,555.6)	27.3%
Net interest income	**2,175.3**	1,933.8	12.5%
Net fee and commission income	**193.9**	125.0	55.1%
Trading income/(expenses)	**(21.9)**	(8.0)	173.8%
Net losses arising from investment securities	**116.9**	—	100.0%
Operating income	**2,464.2**	2,050.8	20.2%
Operating expenses	**(628.0)**	(560.1)	12.1%
Impairment losses on assets	**(332.3)**	(1,307.9)	(74.6)%
Operating profit	**1,503.9**	182.8	722.3%
Share of profit of an associate	**—**	—	—
Profit before tax	**1,503.9**	182.8	722.3%

Notes:

(1) Represents net income and expenses from third parties.

(2) Represents inter-segment expenses and consideration of transfer.

(3) Primarily includes government subsidies and income from short-term leases and disposal of fixed assets and repossessed assets.

(i) Money market transactions

We adjust our liquidity using various monetary market instruments and earn interest income from money market transactions. Money market transactions primarily include (i) interbank deposits; (ii) interbank placements; and (iii) repurchase and reverse repurchase transactions.

(A) Interbank deposits

We deposit and withdraw funds from banks and other financial institutions to manage our assets and liabilities. We accept deposits from banks and other financial institutions and deposit money in banks and other financial institutions, and also engage in other interbank transactions with certain of these banks and financial institutions.

As of December 31, 2017 and 2016, deposits from banks and other financial institutions totaled RMB20,178.4 million and RMB35,777.4 million, and our deposits at banks and other financial institutions totaled RMB30,811.7 million and RMB24,571.9 million, respectively.

(B) Interbank placements

As of December 31, 2017 and 2016, we did not make any placements with banks and other financial institutions. As of the same dates, placements from banks and other financial institutions totaled RMB1,050.0 million and nil, respectively.

(C) Repurchase and reverse repurchase transactions

The securities underlying our repurchase and reverse repurchase transactions are mainly RMB-denominated PRC government bonds and policy financial bonds. As of December 31, 2017 and 2016, financial assets held under resale agreements totaled RMB9,819.9 million and RMB498.1 million, and financial assets sold under repurchase agreements totaled RMB5,817.5 million and RMB4,580.5 million, respectively.

(ii) Investment securities and other financial assets

Investment securities and other financial assets primarily include debt securities, asset management plans issued by other financial institutions, trust plans, wealth management products and fund products.

(A) Security investment by holding purpose

The table below sets forth investment securities and other financial assets by investment intention as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	**As of December 31, 2017**		As of December 31, 2016	
	Amount	**% of total**	Amount	% of total
Debt securities classified as receivables	**48,182.6**	**68.7%**	73,647.9	84.6%
Available-for-sale financial assets	**13,057.2**	**18.6%**	6,199.6	7.1%
Held-to-maturity investments	**8,616.1**	**12.3%**	6,729.1	7.7%
Financial assets at fair value through profit or loss	**249.6**	**0.4%**	539.6	0.6%
Total amount of investment securities and other financial assets	**70,105.5**	**100.0%**	87,116.2	100.0%

Debt securities classified as receivables decreased by 34.6% from RMB73,647.9 million as of December 31, 2016 to RMB48,182.6 million as of December 31, 2017. Available-for-sale financial assets increased by 110.6% from RMB6,199.6 million as of December 31, 2016 to RMB13,057.2 million as of December 31, 2017. Held-to-maturity investment increased by 28.0% from RMB6,729.1 million as of December 31, 2016 to RMB8,616.1 million as of December 31, 2017. Financial assets at fair value through profit or loss decreased by 53.7% from RMB539.6 million as of December 31, 2016 to RMB249.6 million as of December 31, 2017.

(B) Maturity profile of the Bank's investment portfolio

The table below sets forth investment securities and other financial assets by remaining maturity as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	**As of December 31, 2017**		As of December 31, 2016	
	Amount	**% of total**	Amount	% of total
Repayable on demand.	**—**	**—**	100.0	0.1%
Due in three months or less . .	**14,885.3**	**21.2%**	16,558.4	19.0%
Due between three months and one year	**18,661.4**	**26.6%**	29,119.2	33.4%
Due between one year and five years	**32,251.2**	**46.0%**	35,273.6	40.5%
Due over five years	**4,307.6**	**6.2%**	5,237.5	6.0%
Indefinite[1]	**—**	**—**	827.5	1.0%
Total.	**70,105.5**	**100.0%**	87,116.2	100.0%

Note:

(1) Refers to impaired investments, investments overdue for more than one month and equity investments.

The Bank's securities investment with a remaining maturity between one year and five years represent the largest portion of the Bank's investment securities.

(C) Holding of government bonds

As of December 31, 2017, the balance of face value of government bonds held by the Bank amounted to RMB5,092.3 million. The table below sets forth the top 10 government bonds with the highest face value held by the Bank as of December 31, 2017.

Name of the bond	Face value (RMB million)	Interest rate per annum	Maturity date
16 Interest-bearing treasury bond 22 (16附息國債22)	1,000.0	2.29	October 27, 2019
16 Gansu Targeted 02 (16甘肅定向02)	677.6	3.26	April 21, 2023
17 Interest-bearing treasury bond 12 (17附息國債12)	500.0	3.62	June 15, 2019
16 Gansu Targeted 01 (16甘肅定向01)	443.0	3.26	April 21, 2023
17 Gansu bond 03 (17甘肅債03)	440.0	3.97	June 16, 2020
17 Gansu bond 22 (17甘肅債22)	420.0	3.80	October 18, 2024
17 Gansu bond 04 (17甘肅債04)	250.0	3.98	June 16, 2022
17 Gansu bond 21 (17甘肅債21)	200.0	4.26	October 18, 2027
16 Interest-bearing treasury bond 09 (16附息國債09)	200.0	2.55	April 28, 2019
17 Gansu bond 06 (17甘肅債06)	170.0	4.04	June 16, 2024

(D) Holding of financial bonds

As of December 31, 2017, the balance of face value of the financial bonds (mainly the financial bonds issued by policy banks, corporate issuers, commercial banks and other financial institutions) held by the Bank amounted to RMB6,245.65 million. The table below sets forth the top 10 financial bonds with the highest face value held by the Bank as of December 31, 2017.

Name of the bond	Face value (RMB million)	Interest rate per annum	Maturity date
15 ADBC bond 15 (15農發15)	1,000.0	3.73	May 22, 2020
17 CDB bond 09 (17國開09)	600.0	4.14	September 11, 2020
15 CDB bond 13 (15國開13)	500.0	3.86	June 25, 2020
14 CDB bond 02 (14國開02)	410.0	5.75	January 14, 2019
15 EIBC bond 03 (15進出03)	350.0	3.85	January 26, 2020
14 CEC MTN001 bond (14中電MTN001)	300.0	5.40	June 13, 2019
14 AEC MTN001 5–year bond (14皖高速MTN001) (5年期)	300.0	6.38	April 11, 2019
15 CDB bond 12 (15國開12)	300.0	3.54	June 18, 2018
16 EIBC bond 05 (16進出05)	300.0	3.02	May 16, 2019
17 LJB CD147 bond (17龍江銀行CD147)	300.0	3.83	June 16, 2018

(d) Distribution network

(i) Physical outlets

As of December 31, 2017, we had 1 head office operational department, 12 branches, 187 sub-branches and 2 micro-to-small sub-branches. Our branch network covered all of Gansu's cities and prefectures and approximately 86% of its counties and districts.

(ii) Electronic banking business

(A) Internet banking

Through the Internet, we offer customers account management, information inquiry, remittance and transfer, payment, investment and wealth management and other financial services. As of December 31, 2017, we had over 1 million Internet banking customers, consisting of 30,219 corporate customers and over 977 thousand retail customers. As of December 31, 2017, our corporate customers conducted over 3.6 million online transactions with a total transaction amount of approximately RMB686,200 million, while retail customers had conducted approximately 4.4 million online transactions with a total transaction amount of approximately RMB166,686.0 million.

(B) Direct sale banking platform

We launched our direct sale banking platform in August 2016. Through the platform, our customers can achieve electronic account management, smart saving, investment and financing, and purchases of financial products and services. As of December 31, 2017, our direct sale banking platform had over 417,600 registered users with total transaction amounts of RMB4,047.4 million. The sales volume of direct sale banking platform products exceeded RMB1,351.8 million.

(C) Mobile phone banking

We provide customers with various financial services, such as account inquiries and management, transfers, payments and loan management. As of December 31, 2017, we had approximately 1.3 million mobile phone banking customers that had conducted approximately 8.0 million transactions through mobile phones, with total transaction amounts of approximately RMB81,680.0 million.

(D) Telephone banking

We provide customers with loan and deposit account inquiries, personal debit card account transfers, bill inquiries, lost declarations and business inquiry services through an interactive self-service voice system and live customer service. As of December 31, 2017, we had 24,739 telephone banking customers, including 247,378 individual customers and 15 corporate customers.

(E) Self-service banking

We provide convenient banking services to customers at lower operating costs through self-service facilities. Our self-service banking services include balance inquiries, cash withdrawals and deposits, transfers and public utilities payments. As of December 31, 2017, we had 202 outlets, 171 off-bank self-service zones and 772 self-service facilities.

(F) WeChat banking

WeChat has become an important channel that provides value-added services to retail customers. Through WeChat banking, customers can access our products and services; manage accounts, transaction inquires, payment and convenience services; and search for our outlet locations. As of December 31, 2017, we had over 380,000 WeChat banking customers.

(G) E-commerce platform

In April 2017, we formally launched our e-commerce platform "Longyin Commerce", which provides merchants with comprehensive services. These services include purchasing, sales and inventory management, and online B2B and B2C transactions. As of December 31, 2017, the platform had 473 merchants and 27,124 users.

(e) Information on the subsidiary

Jingning Chengji Rural Bank

In March 2007, Pingliang City Commercial Bank established Jingning Chengji Rural Bank with 4 other legal entities and 7 individuals. As of December 31, 2017, we held an approximately 62.73% equity interest in Jingning Chengji Rural Bank.

Jingning Chengji Rural Bank offers financial products and services, including loans, deposits and fee- and commission-based products and services to local corporate and retail customers.

As of December 31, 2017, Jingning Chengji Rural Bank had 21 corporate loan customers, 501 corporate deposit customers, 3,102 retail loan customers and 63,917 retail deposit customers. As of December 31, 2017, Jingning Chengji Rural Bank had 12 outlets and 103 employees.

As of December 31, 2017, Jingning Chengji Rural Bank had total assets of RMB1,324.5 million, total deposits of RMB1,068.5 million and total loans of RMB616.6 million. In 2016 and 2017, operating income attributable to Jingning Chengji Rural Bank totaled RMB44.6 million and RMB54.1 million, accounting for 0.60% and 0.63% of our total operating income, respectively.

We assist Jingning Chengji Rural Bank by providing strategic guidance and employee training. We also dispatch professional staff to improve employee business skills, and share experience to innovate products and services to diversify its business.

(f) Operation and safety of IT systems

We regularly upgrade our IT system and increase our investment in IT each year to support the operation and management of our businesses. For 2016 and 2017, investments in our IT system totaled RMB137.4 million and RMB586.0 million, respectively.

Our new core banking system based on the SOA-framework was formally put into operation in October 2017. Constructed according to the five-layer application framework of the “four horizontal layers and one vertical layer”, the system is able to achieve rapid and flexible product innovation, centralized management of customer information, separation of transaction and accounting, refined management and decision making, transformation of a process-oriented bank and dynamic management of system resources.

We place a high priority on business continuity and information security. We have established disaster recovery centres in Lanzhou and Xi’an and conducted periodic security drills to provide reasonable assurance of business continuity and information security in the event of disruptions at critical facilities. Our new data center, new local disaster recovery center and new core banking system have been put into use synchronously. With a floorage of about 5,400 square meters, the new data center is constructed in strict accordance with the standards of class-A machine room of the state, with partial kernel module reaching T4, the highest international standard (TIA-942). The new local disaster recovery center adopts an active-active architecture. With these two centres supporting business operation simultaneously, we have made important application systems both active locally, which has greatly improved our business continuity.

We have also implemented safeguards to maintain the confidentiality, integrity and availability of information. These safeguards include firewalls, anti-virus measures, data encryption, user authentication and authorization, desk site security, intrusion prevention and detection, filing and evaluation of important information systems, key information infrastructure protection and information system security assessment. During the Track Record Period, we did not suffer any material IT system failures.

3.5 Risk management

(a) Risk management of the Bank

We are primarily exposed to credit risk, liquidity risk, market risk and operational risk in our business. We are also exposed to other risks such as reputational risk, information technology risk and legal and compliance risk.

Since our inception, we have implemented comprehensive risk management strategies to enhance our risk management systems.

(i) Credit risk management

Credit risk is the risk of loss due to (i) failure by a debtor or counterparty to meet its contractual obligations or (ii) a decrease in credit ratings or repayment ability. Our credit risks arise mainly from loans, investments, guarantees, commitments and other on- or off-balance-sheet credit risks exposures.

We determine the direction and amount of credit extended each year based on national and regional economic development plans, market conditions and macroeconomic control measures. We also consider our asset and liability structure and trends in deposit and loan growth. We formulate annual credit policy guidelines to provide detailed guidance for extending credit to different industries, customer types and geographic regions.

In accordance with these guidelines, extension of credit in areas more susceptible to changes in macroeconomic conditions and regulatory policies (such as local government financing platforms, as well as borrowers in the real estate sector or industries involving high-pollution, high-power consumption and over-capacity) must comply with all regulatory requirements. We also encourage the extension of credit to emerging sectors, such as modern services, new urbanization construction and Internet commerce, in accordance with national policy directives. In addition, we may issue notices of adjustments to credit policy guidelines in response to changes in government policies, the economic environment and our risk preferences.

We categorize the industries in which a loan applicant operates into the following four categories and adopt a different credit policy for each industry category.

Industries	**Credit Policies**
Modern agriculture, tourism, education and health care industries ("active support" industries)	• prioritize credit allocation and increase credit exposure to borrowers in these industries.
IT, utility, warehouse and logistics, culture-related and pharmaceutical industries ("moderate support" industries)	• selectively distribute credit to borrowers in these industries.
Real estate, construction, metal ores mining, iron and steel, and wholesale and retail industries ("caution" industries)	• focus on preventing risks by granting loans to high-quality customers and adjusting the proportion of loans to borrowers in these industries.
Steel trading, coal trading, over-capacity and commodity trading industries ("exit" industries)	• focus on minimizing risks by moderately reducing the amount of new loans to borrowers in these industries by no less than 20%, and enhancing the implementation of post-disbursement management measures.

We have also adopted detailed credit policies for small and micro enterprise loans and retail loans based on the type of product, customer group and investment field. We generally update these policies on an annual basis.

(ii) Market risk management

Market risk is the risk of loss in on-balance sheet and off-balance sheet positions arising from fluctuations in market prices. We are exposed to market risks primarily through our banking book and trading book.

(A) Interest rate risk management

Interest rate risk is the exposure of our financial condition to adverse movements in interest rates. Our primary source of interest rate risk is the repricing of on- and off-balance sheet assets and liabilities due to mismatches in maturities.

Maturity or repricing date mismatches may cause changes in net interest income due to fluctuations in prevailing interest rates. We are exposed to interest rate risk through our day-to-day lending and deposit-taking activities and our financial market operations.

We place great emphasis on analyzing the general economic situation and policies, particularly the changes in currency policies. We formulate and adjust interest rates based on studies and forecasts of interest rate trends in financial markets, in order to better control interest rate risks and reduce losses arising from interest rate fluctuations.

We manage the interest rate risk exposure of our RMB-denominated assets and liabilities on our balance sheet primarily by adjusting interest rates and optimizing the maturity profile of our assets and liabilities. We seek to reduce maturity mismatches by adjusting repricing frequency and establishing a pricing structure for corporate deposits.

We use various measures to evaluate interest rate risks arising from our banking book, including but not limited to techniques and measures such as duration analysis, sensitivity analysis, scenario analysis and stress tests, to measure our interest rate risk. For example, we regularly conduct sensitivity analysis and duration analysis on our bond business under different circumstances, to measure the potential effects on our profitability. Under unfavorable external conditions, we will also conduct special stress tests analyses on the interest rate benchmark on loans and deposits. Based on such analyses, we may adjust our terms on repricing to control interest rate risk.

The table below sets forth the results of the Bank's gap analysis based on the earlier of (i) the expected next repricing dates; and (ii) the final maturity dates for its assets and liabilities as of December 31, 2017.

	As of December 31, 2017					
(Expressed in millions of RMB, unless otherwise stated)	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank. . .	**29,084.4**	**492.4**	**28,592.0**	**—**	**—**	**—**
Deposits with banks	**30,811.7**	**—**	**12,409.9**	**18,401.8**	**—**	**—**
Financial assets held under resale agreement	**9,819.9**	**—**	**9,819.9**	**—**	**—**	**—**
Interests receivable.	**1,268.6**	**1,268.6**	**—**	**—**	**—**	**—**
Loans and advances to customers.	**125,254.6**	**2,000.9**	**55,350.9**	**52,337.0**	**13,952.7**	**1,613.1**
Investments.	**70,105.5**	**—**	**14,885.2**	**18,661.5**	**32,251.2**	**4,307.6**
Others[1]	**4,802.9**	**4,802.9**	**—**	**—**	**—**	**—**
Total assets	**271,147.6**	**8,564.8**	**121,057.9**	**89,400.3**	**46,203.9**	**5,920.7**
Liabilities						
Borrowings from the central bank	**5,290.4**	**—**	**1,787.3**	**3,503.1**	**—**	**—**
Deposits from banks and other financial institutions	**20,178.4**	**—**	**8,236.5**	**11,341.9**	**600.0**	**—**
Placements from banks.	**1,050.0**	**—**	**1,000.0**	**—**	**50.0**	**—**
Financial assets sold under repurchase agreements	**5,817.5**	**—**	**5,817.5**	**—**	**—**	**—**
Deposits from customers	**192,230.6**	**—**	**106,737.8**	**29,377.2**	**56,115.6**	**—**
Interests payable.	**4,305.5**	**4,305.5**	**—**	**—**	**—**	**—**
Debt securities issued.	**23,960.8**	**—**	**4,991.6**	**11,281.2**	**6,696.2**	**991.8**
Others[2]	**1,701.4**	**1,701.4**	**—**	**—**	**—**	**—**
Total liabilities	**254,534.6**	**6,006.9**	**128,570.7**	**55,503.4**	**63,461.8**	**991.8**
Asset-liability gap	**16,613.0**	**2,557.9**	**(7,512.8)**	**33,896.9**	**(17,257.9)**	**4,928.9**

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2016 Total	Non-interest bearing	Less than three months	Between three months and one year	Between one year and five years	More than five years
Assets						
Cash and deposits with the central bank. . .	25,079.1	520.0	24,559.1	—	—	—
Deposits with banks	24,571.9	—	22,036.7	2,535.2	—	—
Financial assets held under resale agreement	498.1	—	498.1	—	—	—
Interests receivable.	669.0	669.0	—	—	—	—
Loans and advances to customers.	104,099.1	—	29,112.9	65,654.7	8,268.5	1,062.9
Investments.	87,116.2	—	16,658.4	29,119.2	35,368.8	5,969.9
Others[(1)]	3,023.0	3,023.0	—	—	—	—
Total assets	245,056.4	4,212.0	92,865.2	97,309.1	43,637.3	7,032.8
Liabilities						
Borrowings from the central bank	5,692.9	—	2,267.9	3,425.0	—	—
Deposits from banks and other financial institutions	35,777.4	—	15,010.0	18,437.4	2,330.0	—
Financial assets sold under repurchase agreements	4,580.5	—	4,520.5	60.0	—	—
Deposits from customers	171,165.3	—	101,353.3	24,362.1	45,313.2	136.6
Interests payable.	2,329.2	2,329.2	—	—	—	—
Debt securities issued.	10,134.9	—	3,375.6	3,569.9	—	3,189.3
Others[(2)]	2,032.5	2,032.5	—	—	—	—
Total liabilities	231,712.7	4,361.7	126,527.3	49,854.4	47,643.2	3,325.9
Asset-liability gap.	13,343.7	(149.7)	(33,662.1)	47,454.7	(4,005.9)	3,706.9

Notes:

(1) Primarily include property and equipment, goodwill and deferred tax assets.

(2) Primarily include accrued staff costs and taxes payable.

We use sensitivity analysis to measure the impact of changes in interest rates on our net profit or loss and equity. The table below sets forth the results of our interest rates sensitivity analysis based on our assets and liabilities as of the dates indicated.

	As of December 31,			
	2017		2016	
(Expressed in millions of RMB, unless otherwise stated)	**Change in net profit**	**Changes in equity**	Change in net profit	Changes in equity
Increase by 100 basis points	**174.7**	**371.6**	(182.5)	82.6
Decrease by 100 basis points	**(174.7)**	**(371.6)**	182.5	(82.6)

The sensitivity analysis above is based on a static interest rate risk profile of the assets and liabilities. This analysis measures only the impact of changes in interest rates within one year, showing how annualized net profit or loss and equity would have been affected by the repricing of assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements at the end of each Track Record Period apply to our non-derivative financial instruments;
- At the end of each Track Record Period, an interest rate movement of 100 basis points is based on the assumption of interest rate movements over the next 12 months;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

Due to the adoption of the aforementioned assumptions, the actual changes in the net profit or loss and equity caused by an increase or decrease in interest rates might vary from the estimated results of this sensitivity analysis.

(B) Exchange rate risk management

We are exposed to exchange rate risks primarily due to mismatches in the currency denominations of on- and off-balance sheet assets and liabilities and in the trading positions of foreign exchange transactions. We manage exchange rate risks by matching the sources and uses of funds.

We seek to keep the adverse impact of exchange rate fluctuations within an acceptable range by managing risk exposure limits and the currency structure of our assets and liabilities. In addition, we endeavor to reduce the number of transactions involving high exchange rate risks, monitor major indicators, and inspect the positions of major foreign currencies on a daily basis.

(iii) Operational risk management

Operational risk refers to the risk of loss caused by incomplete internal control procedures, failures of employees and IT systems or external events. Operational risk events include internal and external fraud, safety accidents in the workplace, damage to tangible assets, failures of risk, implementation, settlement and procedure management systems relating to customers, products and operations, as well as errors or malfunctions in IT systems.

Our Board of Directors is ultimately responsible for monitoring the effectiveness of our operational risk management. It determines our operational risk appetite based on our overall business strategies, and reviews and oversees the implementation of operational risk strategies and policies.

Our senior management is responsible for coordinating operational risk management through its risk management and internal control committee.

Our risk and credit management department formulates operational risk management procedures for identifying, evaluating, monitoring and controlling operational risks under the supervision of our Board and senior management. Our audit department supervises and evaluates the management of operational risks and is responsible for independently examining and evaluating the appropriateness, effectiveness and efficiency of operational risk management policies, systems and procedures.

We have established a GRC system for managing internal control and operational risks. Through the system, we utilize operational risk management tools to identify, measure and monitor operational risks. The system also includes an operational risk alert module, enabling us to analyze alerts of risk events on a T+1 basis.

(iv) Liquidity risk

(A) Liquidity risk management

Liquidity risk refers to the risk of failing to liquidate a position in a timely manner or failing to acquire sufficient funds at a reasonable cost to fulfill payment obligations. Factors affecting our liquidity include the term structure of our assets and liabilities and changes to financial industry policies, such as changes in the requirements relating to our statutory deposit reserve ratio. We are exposed to liquidity risk primarily in our lending, trading and investment activities, as well as in the management of our cash flow positions.

The organizational framework of our liquidity risk management focuses on formulating, implementing and supervising the separation of duties in relation to liquidity risk management policies and procedures. As the ultimate decision-making institution for our liquidity risk management, the Board of Directors assumes ultimate responsibility for our liquidity risk management.

Senior management is responsible for liquidity management, and our assets and liabilities management committee is responsible for implementing liquidity management policies and procedures. Our supervisory committee is responsible for supervising and evaluating the implementation of liquidity risk management by the Board of Directors and senior management. The financial planning department is responsible for our daily liquidity risk management.

The objective of our liquidity risk management is, by establishing timely, reasonable and effective liquidity risk management mechanisms, to identify, measure, monitor and control liquidity risks, meet the liquidity needs of our assets, liabilities and off-balance businesses on a timely basis, and control liquidity risks at an acceptable level to maintain sustained and healthy operations.

According to the Measures for the Management of Liquidity Risks of Commercial Banks (Provisional) (effective as from October 1, 2015) issued by the CBRC, we continually improve liquidity risk management, strictly implement regulatory rules, closely monitor liquidity indicators, enhance maturity management of our cash flows, formulate emergency plans and enhance liquidity risk management and stress tests.

We manage liquidity risks with instruments such as position provisioning and monitoring, cash flow analysis, liquidity stress tests, liquidity risk limits and liquidity risk indicators.

(B) Liquidity risk analysis

We funds our loan and investment portfolios principally through customer deposits. Deposits from customers have been, and we believe will continue to be, a stable source of funding. Customer deposits with remaining maturities of less than one year represented 70.8% and 73.4% of total deposits from customers as of December 31, 2017 and December 31, 2016, respectively.

The table below sets forth the remaining maturity of the Bank's assets and liabilities as of December 31, 2017.

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2017						
	Indefinite	Payable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets							
Cash and deposits with the central bank	25,070.1	4,014.3	—	—	—	—	29,084.4
Deposits with banks	—	3,121.8	9,288.1	18,401.8	—	—	30,811.7
Financial assets held under resale agreements	—	—	9,819.9	—	—	—	9,819.9
Financial assets at fair value through profit or loss	—	—	249.6	—	—	—	249.6
Interests receivables	—	—	621.6	579.5	67.5	—	1,268.6
Loans and advances to customers	1,630.7	370.3	18,326.8	61,298.1	33,056.3	10,572.5	125,254.7
Available-for-sale financial assets	—	—	1,811.4	5,255.3	4,255.0	1,735.5	13,057.2
Held-to-maturity investments	—	—	85.2	598.0	7,264.9	668.0	8,616.1
Debt securities classified as receivables	—	—	12,739.0	12,808.1	20,731.3	1,904.2	48,182.6
Others[(1)]	3,535.9	—	—	—	1,266.9	—	4,802.8
Total assets	30,236.7	7,506.4	52,941.6	98,940.8	66,641.9	14,880.2	271,147.6
Liabilities							
Borrowings from the central bank	—	—	1,787.3	3,503.1	—	—	5,290.4
Deposits from banks and other financial institutions	—	531.5	7,705.0	11,341.9	600.0	—	20,178.4
Placements from banks	—	—	1,000.0	—	50.0	—	1,050.0
Financial assets sold under repurchase agreements	—	—	5,817.5	—	—	—	5,817.5
Deposits from customers	—	92,713.8	14,024.0	29,377.2	56,115.6	—	192,230.6
Interests payable	—	3,684.2	167.8	312.4	141.1	—	4,305.5
Debt securities issued	—	—	4,991.6	11,281.1	6,696.2	991.9	23,960.8
Others[(2)]	—	623.7	1,077.7	—	—	—	1,701.4
Total liabilities	—	97,553.2	36,570.9	55,815.8	63,602.9	991.9	254,534.6
New working capital	30,236.7	(90,046.7)	16,370.8	43,125.0	3,039.1	13,888.3	26,613.0

(Expressed in millions of RMB, unless otherwise stated)	As of December 31, 2016 Indefinite	Payable on demand	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total
Assets							
Cash and deposits with the central bank	21,502.2	3,576.9	—	—	—	—	25,079.1
Deposits with banks	—	8,370.2	13,666.5	2,535.2	—	—	24,571.9
Financial assets held under resale agreements	—	—	498.1	—	—	—	498.1
Financial assets at fair value through profit or loss	—	—	—	—	539.6	—	539.6
Interests receivables	—	15.3	372.3	281.0	0.4	—	669.0
Loans and advances to customers	872.6	107.0	21,116.5	43,568.7	32,861.4	5,572.9	104,099.1
Available-for-sale financial assets	827.5	—	994.9	796.9	1,679.3	1,901.0	6,199.6
Held-to-maturity investments	—	—	330.4	1,231.0	4,771.2	396.5	6,729.1
Debt securities classified as receivables	—	100.0	15,233.1	27,091.3	28,283.5	2,940.0	73,647.9
Others[(1)]	2,965.3	0.1	—	—	57.6	—	3,023.0
Total assets	26,167.6	12,169.5	52,211.8	75,504.1	68,193.0	10,810.4	245,056.4
Liabilities							
Borrowings from the central bank	—	—	2,267.9	3,425.0	—	—	5,692.9
Deposits from banks and other financial institutions	—	522.0	14,488.0	18,437.4	2,330.0	—	35,777.4
Financial assets sold under repurchase agreements	—	—	4,520.5	60.0	—	—	4,580.5
Deposits from customers	—	80,013.8	21,339.6	24,362.1	45,313.2	136.6	171,165.3
Interests payable	—	2,121.1	105.7	102.4	—	—	2,329.2
Debt securities issued	—	—	3,375.6	3,569.9	—	3,189.4	10,134.9
Others[(2)]	—	505.3	1,409.5	88.3	—	29.4	2,032.5
Total liabilities	—	83,162.2	47,506.8	50,045.1	47,643.2	3,355.4	231,712.7
New working capital	26,167.6	(70,992.7)	4,705.0	25,459.0	20,549.8	7,455.0	13,343.7

Notes:

(1) Primarily include property and equipment, goodwill and deferred tax assets.

(2) Primarily include accrued staff costs and taxes payable.

The Bank's liquidity coverage ratio

	December 31, 2017	December 31, 2016
Liquidity coverage ratio (%)	**159.47%**	169.55%

(v) Reputation risk management

Reputational risk represents the risk of negative publicity caused by our operations, management or other activities or external events. The general office of our head office is primarily responsible for reputational risk management, and the Board bears the ultimate responsibility for reputational risk management.

(vi) Legal compliance risk management

Legal and compliance risk refers to the risk of legal sanctions, regulatory penalties, financial losses and reputational harm resulting from the failure to comply with laws and regulations. We have a three-tier legal and compliance risk management structure at our head office, branches and sub-branches.

(vii) IT risk management

IT risk refers to operational, reputational, legal and other risks arising from information technology due to natural factors, human factors, technical constraints, management defects and other factors. Our IT risk management aims to identify, measure, monitor and control IT risks through the development of effective systems.

Our IT management committee supervises and guides our IT activities. Our risk and credit management department formulates IT risk management procedures under the supervision of the Board and senior management. Our audit department audits IT risks. Our IT department and relevant business departments are responsible for the implementation of specific risk management measures, plans and proposals.

(viii) Anti-money laundering management

We have formulated comprehensive anti-money laundering rules and procedures in accordance with the Anti-Money Laundering Law of the PRC and other applicable regulations of the PBoC.

Our Board of Directors oversees our bank-wide implementation of anti-money laundering policies, supervises senior management with respect to the formulation and implementation of anti-money laundering rules and procedures, reviews reports from senior management on any major anti-money laundering matters and our overall money-laundering risk profile, and adjusts our anti-money laundering policies on a timely basis.

We have established anti-money laundering steering groups at our head office, branches and sub-branches.

(ix) Internal audits

We believe internal audits are essential to our stable operations and achievement of business objectives. We conduct internal audits to monitor the compliance with laws and regulations and the implementation of our internal policies and procedures, with the objective of controlling risks at an acceptable level.

We also aim to conduct effective risk management as well as optimize internal control compliance and our corporate governance structure, in an effort to improve our operations. We adhere to the principles of independence, importance, prudence, objectiveness and relevance.

We have adopted an independent and vertical internal audit management system, consisting of the audit committee of our Board of Directors, the audit committee of our Board of Supervisors and the audit department of our head office.

3.6 Analysis on capital adequacy ratio

We are required to comply with the CBRC's capital adequacy ratio requirements. Since January 1, 2015, we have calculated and disclosed capital adequacy ratios in accordance with the Capital Administrative Measures, which required China's commercial banks (except systematically important banks) to maintain (i) minimum capital adequacy ratios of 8.9%, 9.3%, 9.7% and 10.1%, (ii) minimum tier-one capital adequacy ratios of 6.9%, 7.3%, 7.7% and 8.7%, and (iii) minimum core tier-one capital adequacy ratios of 5.9%, 6.3%, 6.7% and 7.1%, as of December 31, 2014, 2015, 2016 and 2017, respectively.

The table below sets forth certain information relating to our capital adequacy ratio as of the dates indicated.

(Expressed in millions of RMB, unless otherwise stated)	**December 31, 2017**	December 31, 2016
Core capital		
Paid-up capital	**7,526.0**	7,526.0
Qualifying portion of capital reserve	**1,767.7**	1,765.2
Defined benefit plan reserve	**(0.7)**	(4.2)
Investment revaluation reserve	**(125.3)**	(27.1)
Surplus reserve	**893.0**	557.7
General risk reserve	**3,631.6**	3,226.1
Retained earnings	**2,889.0**	271.5
Qualifying portion of minority shareholders' equity	**17.4**	18.8
Core tier-one capital deductions [1]	**(32.5)**	(54.1)
Net core tier-one capital	**16,566.2**	13,279.9
Other tier-one capital[2]	**2.3**	1.7
Net tier-one capital	**16,568.5**	13,281.6
Tier-two capital		
Instruments issued and share premium	**3,191.9**	3,189.3
Surplus reserve for loan impairment	**2,187.1**	1,786.0
Eligible portion of non-controlling interest	**4.6**	4.0
Net capital base	**21,952.1**	18,260.9
Total risk-weighted assets	**190,251.6**	154,753.9
Core tier-one capital adequacy ratio (%)	**8.71%**	8.58%
Tier-one capital adequacy ratio (%)	**8.71%**	8.58%
Capital adequacy ratio (%)	**11.54%**	11.80%

Notes:

(1) Primarily include other intangible assets excluding land use rights, goodwill and deferred tax recognized as tax losses.

(2) Primarily includes tier-one capital instruments such as preference shares and their premiums.

4. ISSUE AND LISTING OF SECURITIES AND BONDS

4.1 Issue and Listing of Securities

The H Shares of the Bank were listed on the Hong Kong Stock Exchange on January 18, 2018 (the "**Listing Date**"). The offer price was determined at HK$2.69 per H Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The global offering of the Bank comprised 2,212,000,000 H Shares. Four cornerstone investors subscribed 1,163,152,000 H Shares in total issued by the Bank. The net proceeds from global offering received by the Bank, after deducting the underwriting fees for the global offering, commissions, and other expenses and assuming no exercise of the over-allotment option was not obtained, are approximately HK$5,743.18 million.

On February 5, 2018, Joint Representatives (as defined in the prospectus of H Shares Global Offering of the Bank) (on behalf of international underwriters) fully exercised the over-allotment option, in respect of an aggregate of 331,800,000 H Shares, representing in aggregate 15% of the offer shares initially offered under the Global Offering before any exercise of the over-allotment options, to cover over-allocations in the international offering tranche. The over allotment shares were issued and allotted at HK$2.69 per H Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%). The over-allotment shares were listed and traded on the Main Board of Hong Kong Stock Exchange on February 8, 2018. The Bank raised additional net proceeds from the issuance of over-allotment shares of approximately HK$872.84 million (after deducting underwriting commissions, brokerage fee, transaction levy and transaction fee).

The Bank intends to use the net proceeds from the global offering to supplement the capital base of the Bank to support the growth of the business. As of the date of this announcement, the Bank has not used the proceeds from the global offering.

4.2 Issuance of Bonds

For the year ended December 31, 2017, the Bank has issued debt securities during the Reporting Period to replenish its capital, the details of which are set out as follows:

Interbank certificates

For the year ended December 31, 2017, the Bank issued several tranches of zero coupon interbank certificates in an aggregate principal amount of RMB44,980.0 million. The interbank certificates have a term ranging from 1 month to 1 year and bear effective interest rates between 3.10% and 5.31%.

Financial bonds

(1) In March 2017, the Bank issued three-year financial bonds in an aggregate principal amount of RMB1,000.0 million with an annual interest rate of 4.67%.

(2) In April 2017, the Bank issued five-year financial bonds in an aggregate principal amount of RMB1,000.0 million with an annual interest rate of 5.00%.

(3) In May 2017, the Bank issued three-year financial bonds in an aggregate principal amount of RMB1,000.0 million with an annual interest rate of 4.90%.

(4) In August 2017, the Bank issued three-year financial bonds in an aggregate principal amount of RMB1,500.0 million with an annual interest rate of 4.85%.

5. OTHER INFORMATION

5.1 Corporate Governance

The Bank believes that maintaining high standards of corporate governance mechanisms and high quality corporate governance is one of the key factors to improve its core competitiveness and to build a modern rural commercial bank. Therefore, the Bank focuses on high quality of corporate governance, abides by the best domestic and international corporate governance practice, to ensure the rights and interests of Shareholders and improve the value of the Bank.

The Bank has established a modern corporate governance structure in line with the requirements of its Articles of Association, PRC laws and regulations and the Hong Kong Listing Rules. The Board of Directors is accountable to the Shareholders as a whole and is responsible for, among others, determining the Group's business development strategies, business plans and investment proposals, appointing or removing senior management, and deciding matters such as internal management structure. The Board of Directors has established committees to perform specified functions consisting of the strategy and development committee, audit committee, nomination and remuneration committee, related-party transactions and risk control committee. The Board of Supervisors is accountable to the Shareholders as a whole and has the responsibility and power to supervise the Directors and senior management and oversee the Group's financial activities, risk management and internal control.

The Bank has incorporated the Corporate Governance Code (the "**Code of Corporate Governance**") as set out in Appendix 14 to the Hong Kong Listing Rules and the Guidelines on Corporate Governance of Commercial Banks issued by the CBRC (the "**Guidelines**") into the Bank's governance structure and polices. The Code of Corporate Governance and Guidelines are well reflected in the Bank's Articles of Association and the Terms of Reference of the Shareholders' General Meeting, the Board of Directors and committees under the Board of Directors. The Bank's Shareholders' general meeting, the Board of Directors and the Board of Supervisors perform their respective duties and form good corporate governance structure. The Bank closely monitors its operation to ensure it complies with the relevant requirements under applicable laws, regulations, codes, guidelines and the Bank's internal policies.

As H shares of the Bank has been listed on the Hong Kong Stock Exchange on January 18, 2018, the Code Provisions contained in the Code of Corporate Governance are not applicable to the Bank during the Reporting Period. The Bank has established and improved the corporate governance structure and established a series of corporate governance system according to Corporate Governance Code and Guidelines. Since the Listing Date, the Bank has complied with the applicable Code Provisions contained in the Corporate Governance Code. The Bank has also strictly complied with the provisions regarding management of inside information required by applicable laws and regulations and the Hong Kong Listing Rules.

The Bank will review its corporate governance and strengthen management constantly to ensure compliance with the Corporate Governance Code and the Guidelines and meet the higher expectations from its Shareholders and potential investors.

5.2 Securities Transactions by Directors, Supervisors and Senior Management

The Bank has adopted, in respect of securities transactions by Directors, Supervisors and member of the senior management, a code of conduct on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 to the Hong Kong Listing Rules. During the Reporting Period, the Bank's shares have not been listed on the Hong Kong Stock Exchange. Therefore, the Model Code was not applicable to the Directors, Supervisors, and members of the senior management of the Bank during the Reporting Period.

Having made specific enquiries to all Directors, Supervisors and members of the senior management of the Bank, the Bank confirmed that they had complied with the Model Code for the period from the Listing Date to March 27, 2018, being the date of the meeting of the Board to consider and approve the annual results of the Group for the year ended December 31, 2017.

5.3 Profits and Dividend

The Group's revenue for the year ended December 31, 2017 and the Group's financial position as of the same date are set out in the consolidated financial statements of this announcement.

According to the resolution passed by Shareholders at the 2016 shareholders' general meeting which held on June 1, 2017 and combined with the benefits of holders of domestic shares and H Shares, the accumulated undistributed profits issued by H Shares and listed prior to the global offering shall be distributed to new and old shareholders as per the shareholding ratio after the issuance of H Shares is completed and the dividend to be allocated approved through the shareholders' general meeting before the global offering (if applicable) is deducted.

Considering the shareholders' interests, our future development and other factors and in accordance with the requirements of relevant laws and regulations and the Articles of Association of the Bank, the Board proposed the 2017 profit distribution plans as follows:

(1) appropriate 10% of net profit realized this year of RMB335.3 million to statutory surplus reserve.

(2) appropriate 1.5% of the risk-bearing assets of RMB400.2 million to the general risk reserve according to the Administrative Measures for the Provisioning for Reserves of Financial Institutions [2012] No 20 (《金融企業準備金計提管理辦法》([2012]20號)) promulgated by the Ministry of Finance of the People's Republic of China.

(3) appropriate surplus reserve fund of RMB335.3 million.

(4) The Bank proposed not to distribute cash dividends. In light of the Bank's future business development which needs sufficient capital to support, the Bank proposed not to distribute cash dividends to all shareholders in 2017.

(5) the remaining retained earnings of the parent company of RMB2.547 billion will be carried forward to the following year.

The above profit distribution plans remain to be submitted to the 2017 annual general meeting of the Bank for consideration and approval.

The cash dividends and that attributable to profits for the last three years of the Bank is set out below:

(in millions of RMB, unless otherwise stated)	**2017**	2016	2015
Cash dividends (tax inclusive)	**—**	—	602.1
Cash dividends attributable to profit for the year (%)	**—**	—	46.4

5.4 Annual General Meeting and Book Closure Date

The 2017 annual general meeting of the Bank will be held on Friday, June 1, 2018. In order to determine the holders of H Shares who are eligible to attend the 2017 annual general meeting of the Bank, the H share register of the Bank will be closed from Tuesday, May 1, 2018 to Friday, June 1, 2018 (both days inclusive), during which period no transfer of H Shares will be registered.

In order to qualify for attending the 2017 annual general meeting of the Bank, share certificates accompanied by transfer documents must be lodged with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, April 30, 2018. Holders of H Shares of the Bank who are registered with Computershare Hong Kong Investor Services Limited on Friday, June 1, 2018 are entitled to attend the 2017 annual general meeting of the Bank.

A Shareholder or his/her proxy should present proof of identity when attending the 2017 annual general meeting of the Bank. If a Shareholder is a legal person, its legal representative or other person authorized by the board of directors or other governing body of such Shareholder may attend the 2017 annual general meeting of the Bank by providing a copy of the resolution of the board of directors or other governing body of such Shareholder appointing such person to attend the meeting.

5.5 Purchase, Sale and Redemption of Listed Securities of the Bank

The H Shares of the Bank were listed on the Main Board of Hong Kong Stock Exchange on January 18, 2018. The over-allotment option was fully exercised on February 5, 2018. The over-allotment shares were listed on the Main Board of the Hong Kong Stock Exchange on February 8, 2018.

The share capital of the Bank as at the date of this announcement is set out below:

Description of Shares	Number of Shares	Approximate percentage of issued share capital
Domestic Shares	7,525,991,330	74.74%
H Shares	2,543,800,000	25.26%
Total	**10,069,791,330**	**100.00%**

Save as disclosed above, neither the Bank nor its subsidiary had purchased, sold or redeemed any of the Bank's listed securities from the Listing Date to the date of this announcement.

5.6 OTHER EVENTS AFTER REPORTING PERIOD

(I) Change of Joint Company Secretary, Authorized Representative and Process Agent

Ms. Hui Yin Shan, former joint company secretary of the Bank, resigned as the joint company secretary of the Bank, the authorized representative (the "**Authorized Representative**") of the Bank under Rule 3.05 of the Hong Kong Listing Rules and the Bank's authorized representative ("**Process Agent**") for the acceptance of service of process or notice in Hong Kong under the Companies Ordinance on February 28, 2018. On the same day, Ms. Ko Nga Kit was appointed as the joint company secretary, Authorized Representative and Process Agent of the Bank.

Pursuant to Rule 8.17 of the Hong Kong Listing Rules, a listed issuer must appoint a company secretary who meets the requirements under Rule 3.28 of the Hong Kong Listing Rules. Rule 3.28 of the Hong Kong Listing Rules provides that a listed issuer must appoint its company secretary an individual who, in the opinion of the Hong Kong Stock Exchange, is capable of discharging the functions of company secretary of the listed issuer by virtue of his or her academic or professional qualifications or relevant experience.

Reference is made to our H Shares Global Offering Prospectus in which Mr. Xu Jianping was appointed as one of the joint company secretaries and the waiver (the "**Waiver**") granted to the Bank by the Hong Kong Stock Exchange from strict compliance with the requirements of Rules 3.28 and 8.17 of the Hong Kong Listing Rules in relation to the eligibility of Mr. Xu to act as the joint company secretary for a period of three years from the date of the listing of the Bank's H Shares on the Main Board of the Hong Kong Stock Exchange (i.e., January 18, 2018), subject to the condition that the Bank engages Ms. Hui Yin Shan as a joint company secretary to assist Mr. Xu Jianping in discharging his functions as a joint company secretary and in gaining the relevant experience as required under Rule 3.28 of the Hong Kong Listing Rules. The Waiver will be revoked immediately when Ms. Hui Yinshan, during the three-year period, ceases to provide assistance to Mr. Xu. Additionally, prior to the end of the three-year period, the Bank must liaise with the Hong Kong Stock Exchange to revisit the situation in the expectation that the Bank should then be able to demonstrate to the satisfaction of the Hong Kong Stock Exchange that Mr. Xu Jianping, having had the benefit of Ms. Hui's assistance for three years, would then have acquired the relevant experience within the meaning of Rule 3.28 of the Hong Kong Listing Rules so that a further wavier would not be necessary.

Mr. Xu Jianping currently does not possess the qualifications of company secretary as required under Rules 3.28 and 8.17 of the Hong Kong Listing Rules. The Bank has therefore appointed Ms. Ko who possesses the qualifications of company secretary as required under Rules 3.28 and 8.17 of the Hong Kong Listing Rules as a joint company secretary. Ms. Ko will provide assistance to Mr. Xu to help him acquire the relevant experience as required by a company secretary under Note 2 to Rule 3.28 of the Hong Kong Listing Rules and discharge his functions as the joint company secretary.

The Bank has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted the Bank, a new waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Hong Kong Listing Rules with respect to the eligibility of Mr. Xu to act as a joint company secretary (the "**New Waiver**") from the date on which Ms. Ko was appointed as the joint company secretary to January 17, 2021 (i.e., the end of the three-year period) (the "**New Waiver Period**"). The New Waiver is granted on the conditions that (1) Mr. Xu Jianping will be assisted by Ms. Ko during the New Waiver Period; (2) the Bank shall notify the Hong Kong Stock Exchange prior to the end of the New Waiver Period for the Hong Kong Stock Exchange to revisit the situation. The Hong Kong Stock Exchange expects that, after the end of the New Waiver Period, the Bank will be able to demonstrate that Mr. Xu Jianping can satisfy the requirements under Rules 3.28 and 8.17 of the Hong Kong Listing Rules after having the benefit of Ms. Ko's assistance such that a further waiver will not be necessary; and (3) the Bank will disclose the details of the New Waiver, including its reasons and conditions, by way of an announcement. The New Waiver will be revoked immediately if and when Ms. Ko ceases to provide assistance to Mr. Xu in discharging his duties as a joint company secretary. The Hong Kong Stock Exchange may withdraw or change the New Waiver if the Bank's situation changes.

(II) Resignation of Independent Non-executive Director

The Board of Directors received the resignation letter of Mr. Chen Aiguo ("**Mr. Chen**"), an independent non-executive director of the Bank, on March 27, 2018. Mr. Chen has tendered his resignation as an independent non-executive director, the chairman of the nomination and remuneration committee, a member of strategy and development committee and a member of audit committee as he intends to focus on other job commitments. Mr. Chen confirmed that he has no disagreement with the Board of Directors and there are no circumstances related to his resignation which need to be brought to the attention of the shareholders of the Bank, creditors and The Hong Kong Stock Exchange.

Whereas the resignation of Mr. Chen will result in the number of independent non-executive directors of the Bank falling below the minimum number required by the Bank's Articles of Association and the Hong Kong Listing Rules, pursuant to the relevant laws and regulations and the Articles of Association, Mr. Chen will continue to perform his duties as independent non-executive director and chairman/member of special committees under the Board of Directors, until the appointment of a new independent non-executive director is approved by the Bank's general meeting and the qualification of director is approved by the China Banking Regulatory Commission. The Bank will complete the procedures of the appointment of a new independent non-executive director as soon as practicable according to the provisions of relevant laws and regulations and the articles of association of the Bank, and publish the relevant announcements and circular pursuant to the Hong Kong Listing Rules.

For the details of Mr. Chen's resignation, please refer to the Bank's relevant announcement dated March 27, 2018.

(III) Resignation and Appointment of Supervisor

Mr. Zhu Xingjie ("**Mr. Zhu**") tendered his resignation to the board of supervisors of the Bank as an external supervisor of the Bank, and the director of the audit committee and a member of the supervision committee under the Board of Supervisors on March 27, 2018 because he expects to focus on other affairs. The resignation of Mr. Zhu will take effect from the date when the new external supervisor of the Bank formally assumes his role. Mr. Zhu confirmed that he has no disagreement with the Board and the Board of Supervisors and there are no circumstances related to his resignation which need to be brought to the attention of the shareholders and creditors of the Hong Kong Stock Exchange.

The Board of Supervisors approved the proposed appointment of Mr. Luo Yi ("**Mr. Luo**") as an external supervisor of the Bank at the eighteenth meeting of first session of the Board of Supervisors held on March 27, 2018. In accordance with the articles of association of the Bank and relevant PRC laws and regulations, the proposed appointment of Mr. Luo as an external supervisor of the Bank is still subject to the approval by the shareholders of the Bank at a shareholders' general meeting. A circular containing, among other things, details of the above proposal, together with the notice of the general meeting will be despatched to the shareholders of the Bank in due course.

For the details of the biography of Mr. Luo, please refer to the Bank's relevant announcement dated March 27, 2018.

Save as disclosed above, neither the Bank nor its subsidiary had other material events after the Reporting Period to the date of this announcement.

6. FINANCIAL REPORT

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2017

	2017	2016
	RMB'000	*RMB'000*
Interest income	**14,045,768**	12,062,975
Interest expenses	**(6,560,779)**	(5,392,758)
Net interest income	**7,484,989**	6,670,217
Fee and commission income	**462,750**	327,366
Fee and commission expenses	**(86,079)**	(71,053)
Net fee and commission income	**376,671**	256,313
Net trading losses	**(21,937)**	(7,983)
Net gains arising from investment securities	**116,992**	—
Net exchange (losses)/gains	**(13,203)**	9,867
Other operating income, net	**109,033**	42,499
Operating income	**8,052,545**	6,970,913
Operating expenses	**(2,052,230)**	(1,903,834)
Impairment losses on assets	**(1,523,033)**	(2,504,347)
Operating profit	**4,477,282**	2,562,732
Share of profit of an associate	**1,798**	1,877
Profit before tax	**4,479,080**	2,564,609
Income tax expense	**(1,115,351)**	(643,605)
Profit for the year	**3,363,729**	1,921,004
Earnings per share		
— Basic and diluted (RMB cents)	**44.62**	25.47

	2017 *RMB'000*	2016 *RMB'000*
Profit for the year	**3,363,729**	1,921,004
Other comprehensive income/(expenses) for the year:		
Items that will not be reclassified subsequently to profit or loss:		
— Remeasurement of defined benefit obligations	**4,430**	(1,211)
— Income tax relating to item that will not be reclassified subsequently	**(1,108)**	303
	3,322	(908)
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets		
— Change in fair value recognised in investment revaluation reserve	**(130,909)**	(93,271)
— Income tax relating to item that may be reclassified subsequently	**32,727**	23,318
	(98,182)	(69,953)
Other comprehensive expenses for the year, net of income tax	**(94,860)**	(70,861)
Total comprehensive income for the year	**3,268,869**	1,850,143
Profit for the year attributable to:		
— Owners of the Bank	**3,358,464**	1,917,033
— Non-controlling interests	**5,265**	3,971
	3,363,729	1,921,004
Total comprehensive income for the year attributable to:		
— Owners of the Bank	**3,263,604**	1,846,172
— Non-controlling interests	**5,265**	3,971
	3,268,869	1,850,143

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2017

	2017	2016
	RMB'000	*RMB'000*
Assets		
Cash and deposits with the central bank	**29,084,415**	25,079,115
Deposits with banks	**30,811,728**	24,571,875
Financial assets held under resale agreements	**9,819,920**	498,086
Financial assets at fair value through profit or loss	**249,636**	539,603
Interests receivables	**1,268,593**	668,953
Loans and advances to customers	**125,254,681**	104,099,125
Available-for-sale financial assets	**13,057,235**	6,199,558
Held-to-maturity investments	**8,615,964**	6,729,095
Debt securities classified as receivables	**48,182,626**	73,647,939
Interest in an associate	**9,930**	8,132
Property and equipment	**1,752,840**	1,428,269
Deferred tax assets	**1,465,662**	1,213,251
Other assets	**1,574,387**	373,356
Total assets	**271,147,617**	245,056,357

	2017 *RMB'000*	2016 *RMB'000*
Liabilities and equity		
Liabilities		
Borrowings from the central bank	**5,290,410**	5,692,924
Deposits from banks and other financial institutions	**20,178,373**	35,777,400
Placements from banks and other financial institutions	**1,050,000**	—
Financial assets sold under repurchase agreements	**5,817,526**	4,580,481
Deposits from customers	**192,230,603**	171,165,321
Accrued staff costs	**398,478**	348,570
Taxes payable	**572,856**	1,091,992
Interests payable	**4,305,460**	2,329,230
Debts securities issued	**23,960,759**	10,134,895
Other liabilities	**730,113**	591,900
Total liabilities	**254,534,578**	231,712,713
Equity		
Share capital	**7,525,991**	7,525,991
Capital reserve	**1,767,659**	1,765,183
Defined benefit plan reserve	**(744)**	(4,066)
Investment revaluation reserve	**(125,323)**	(27,141)
Surplus reserve	**892,953**	557,666
General reserve	**3,631,670**	3,226,100
Retained earnings	**2,889,067**	271,460
Total equity attributable to owners of the Bank	**16,581,273**	13,315,193
Non-controlling interests	**31,766**	28,451
Total equity	**16,613,039**	13,343,644
Total liabilities and equity	**271,147,617**	245,056,357

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2017

	Attributable to owners of the Bank									
	Share Capital *RMB'000*	Capital reserve *RMB'000*	Defined benefit plan reserve *RMB'000*	Investment revaluation reserve *RMB'000*	Surplus reserve *RMB'000*	General reserve *RMB'000*	Retained earnings *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At January 1, 2016	7,525,991	1,763,337	(3,158)	42,812	366,496	1,898,424	475,352	12,069,254	25,462	12,094,716
Profit for the year	—	—	—	—	—	—	1,917,033	1,917,033	3,971	1,921,004
Other comprehensive expenses for the year	—	—	(908)	(69,953)	—	—	—	(70,861)	—	(70,861)
Total comprehensive (expenses)/income for the year	—	—	(908)	(69,953)	—	—	1,917,033	1,846,172	3,971	1,850,143
Shareholders' injection	—	1,846	—	—	—	—	—	1, 846	—	1, 846
Appropriation of profits										
— Appropriation to surplus reserve	—	—	—	—	191,170	—	(191,170)	—	—	—
— Appropriation to general reserve	—	—	—	—	—	1,327,676	(1,327,676)	—	—	—
— Dividends paid	—	—	—	—	—	—	(602,079)	(602,079)	—	(602,079)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(982)	(982)
At December 31, 2016	7,525,991	1,765,183	(4,066)	(27,141)	557,666	3,226,100	271,460	13,315,193	28,451	13,343,644

	Attributable to owners of the Bank									
	Share Capital *RMB'000*	Capital reserve *RMB'000*	Defined benefit plan reserve *RMB'000*	Investment revaluation reserve *RMB'000*	Surplus reserve *RMB'000*	General reserve *RMB'000*	Retained earnings *RMB'000*	Sub-total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At January 1, 2017	**7,525,991**	**1,765,183**	**(4,066)**	**(27,141)**	**557,666**	**3,226,100**	**271,460**	**13,315,193**	**28,451**	**13,343,644**
Profit for the year	—	—	—	—	—	—	3,358,464	3,358,464	5,265	3,363,729
Other comprehensive income/(expenses) for the year	—	—	3,322	(98,182)	—	—	—	(94,860)	—	(94,860)
Total comprehensive income/(expenses) for the year	—	—	3,322	(98,182)	—	—	3,358,464	3,263,604	5,265	3,268,869
Shareholders' injection	—	2,476	—	—	—	—	—	2,476	—	2,476
Appropriation of profits										
— Appropriation to surplus reserve	—	—	—	—	335,287	—	(335,287)	—	—	—
— Appropriation to general reserve	—	—	—	—	—	405,570	(405,570)	—	—	—
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(1,950)	(1,950)
At December 31, 2017	**7,525,991**	**1,767,659**	**(744)**	**(125,323)**	**892,953**	**3,631,670**	**2,889,067**	**16,581,273**	**31,766**	**16,613,039**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended december 31, 2017 (continued)

	2017	2016
	RMB'000	*RMB'000*
Operating activities		
Profit before tax for the year	**4,479,080**	2,564,609
Adjustments for:		
Depreciation of property and equipment	**213,619**	138,890
Amortisation of long term deferred expenses, land use rights and intangible assets	**17,415**	4,045
Impairment losses on assets	**1,523,033**	2,504,347
Interest expense on debts securities issued	**945,992**	445,795
(Gain)/loss on disposal of property and equipment	**(4)**	11
Gain on disposal of repossessed assets	**(32,319)**	(528)
Net unrealised trading (gains)/losses	**(3,213)**	10,349
Net gains arising from investment securities	**(116,992)**	—
Government grants	**(75,520)**	(41,696)
Interest income on financial investments	**(4,608,705)**	(4,630,364)
Share of profits of associates	**(1,798)**	(1,877)
	2,340,588	993,581
Changes in operating assets		
Net (increase)/decrease in deposits with the central bank	**(3,567,941)**	709,548
Net (increase)/decrease in deposits with the banks	**(24,330,181)**	1,270,297
Net decrease in financial assets at fair value through profit or loss	**289,967**	194,369
Net increase in loans and advances to customers	**(22,418,062)**	(17,228,381)
Net increase in other operating assets	**(1,519,679)**	(37,536)
	(51,545,896)	(15,091,703)
Changes in operating liabilities		
Net (decrease)/increase in borrowing from central bank	**(402,514)**	1,348,253
Net decrease in deposits and placements from banks and other financial institutions	**(14,549,027)**	(4,856,894)
Net increase/(decrease) in financial assets sold under repurchase agreements	**1,237,045**	(625,638)
Net increase in deposits from customers	**21,065,282**	30,144,694
Net increase in other operating liabilities	**2,037,368**	1,132,560
	9,388,154	27,142,975

	2017	2016
	RMB'000	*RMB'000*
Cash (used in)/generated from operations	**(39,817,154)**	13,044,853
Income tax paid	**(1,855,279)**	(721,040)
Net cash from/(used in) operating activities	**(41,672,433)**	12,323,813
Investing activities		
Proceeds from disposal of investments	**161,260,436**	118,808,193
Interest income received from financial investments	**4,334,545**	4,771,206
Proceeds from disposal of property and equipment and other assets	**42,787**	766
Dividends received from associates	**—**	339
Payments on acquisition of investments	**(144,797,792)**	(136,541,655)
Payments on acquisition of property and equipment and intangible assets	**(586,009)**	(467,404)
Deposits paid for acquisitions of premises	**—**	(115,229)
Payments on acquisition of land use rights	**—**	(126)
Net cash generated from/(used in) investing activities	**20,253,967**	(13,543,910)
Financing activities		
Shareholders' injection	**2,476**	1,846
Government grants received	**75,520**	41,696
Proceeds from issue of new debt securities	**48,607,720**	35,519,255
Repayment of debt securities issued	**(35,420,000)**	(31,570,000)
Interest paid on debts securities issued	**(170,775)**	(163,200)
Debt securities issue expenses	**(5,364)**	—
Dividends paid	**(296)**	(602,079)
Dividends paid to non-controlling interests	**(1,950)**	(982)
Net cash from financing activities	**13,087,331**	3,226,536
Net (decrease)/increase in cash and cash equivalents	**(8,331,135)**	2,006,439
Cash and cash equivalents at the beginning of the year	**25,552,017**	23,545,578
Cash and cash equivalents at the end of the year	**17,220,882**	25,552,017
Interest received	**7,471,034**	12,157,513
Interest paid (excluding interest expense on debts securities issued)	**(1,149,929)**	(4,750,796)

1. General

The Bank was established in Lanzhou, Gansu Province, the People's Republic of China (the "PRC") on September 27, 2011 with the approval of the CBRC. Prior to its establishment, the banking business was carried out by two city commercial banks (the "Predecessor Entities"), each being located in Gansu Province.

Pursuant to reorganisation initiated by the People's Government of Gansu Province, the Bank was established through the merger and reorganisation of the Predecessor Entities.

The Bank obtained its finance permit No. B1228H262010001 from the CBRC, and obtained its business license No. 91620000585910383X from the Gansu Administration of Industry and Commerce. The legal representative is Li Xin and the address of the registered office is No. 122, Gannan Road, Chengguan District, Lanzhou, Gansu Province.

As at December 31, 2017, the Bank has a head office, 9 branches, 189 sub-branches, 2 micro-to-small enterprise sub-branches and a subsidiary. The principal activities of the Bank and its subsidiary (collectively referred to as the "Group") are the provision of corporate and retail deposits, loans and advances, payment and settlement services, as well as other banking services as approved by the CBRC. The Group operates in mainland China.

On 18 January 2018, the Bank's H shares were listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock code: 2139).

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Bank and its subsidiary.

2. Basis of preparation

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB on the historical cost basis except for certain financial instruments that are measured at fair values and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

3. Net Interest Income

	2017	2016
	RMB'000	*RMB'000*
Interest income arising from		
— Deposits with the central bank	**387,413**	342,582
— Deposits with banks	**974,517**	453,277
— Placements with banks and other financial institutions	**1,723**	83
— Financial assets at fair value through profit or loss	**79,084**	38,898
— Loans and advances to customers:		
Corporate loans and advances	**5,918,470**	5,608,428
Personal loans and advances	**945,083**	460,536
Discounted bills	**881,212**	506,925
— Financial assets held under resale agreements	**249,561**	21,882
— Investments	**4,608,705**	4,630,364
	14,045,768	12,062,975
Less: Interest expenses arising from		
— Borrowing from the central bank	**(130,520)**	(147,349)
— Deposits from banks and other financial institutions	**(1,712,482)**	(1,817,877)
— Placements from banks and other financial institutions	**(8,973)**	(2,777)
— Deposits from customers:		
Corporate customers	**(1,095,315)**	(1,126,794)
Individual customers	**(2,437,434)**	(1,761,339)
— Financial assets sold under repurchase agreements	**(230,063)**	(90,827)
— Debts securities issued	**(945,992)**	(445,795)
	(6,560,779)	(5,392,758)
	7,484,989	6,670,217

4. Net Fee and Commission Income

	2017	2016
	RMB'000	*RMB'000*
Fee and commission income		
— Wealth management service fees	**193,895**	125,002
— Bank acceptance bills service fees	**14,676**	31,189
— Agency services fees	**144,391**	99,594
— Settlement and clearing fees	**52,997**	41,337
— Letter of guarantee service fees	**8,442**	5,674
— Others	**48,349**	24,570
	462,750	327,366
Fee and commission expense		
— Settlement and clearing fees	**(2,763)**	(2,894)
— Bank card service fees	**(70,528)**	(62,348)
— Others	**(12,788)**	(5,811)
	(86,079)	(71,053)
	376,671	256,313

5. Net Trading (Losses)/Gains

	2017	2016
	RMB'000	*RMB'000*
Trading financial instruments		
Realised (losses)/gains from debt securities	**(25,150)**	2,366
Unrealised gains/(losses) from debt securities	**3,213**	(10,349)
	(21,937)	(7,983)

6. Net Gains Arising From Investment Securities

	2017	2016
	RMB'000	*RMB'000*
Net gains on disposal of available-for-sale financial assets	**116,992**	—

7. Other Operating Income, Net

	2017	2016
	RMB'000	*RMB'000*
Government grants	**75,520**	41,696
Gain/ (loss) on disposal of property and equipment	**4**	(11)
Gain on disposal of repossessed assets	**32,319**	528
Rental income	**1,737**	5,013
Other operating expenses	**(547)**	(4,727)
	109,033	42,499

8. Operating Expenses

	2017	2016
	RMB'000	*RMB'000*
Staff costs (including directors' emoluments)		
— Salaries and bonuses	**869,652**	789,114
— Staff welfares	**36,330**	34,349
— Social insurance	**182,985**	117,542
— Housing allowances	**41,897**	36,689
— Labour union and staff education expenses	**23,827**	15,257
— Long term staff welfare expenses	**860**	260
— Others	**1,782**	13,911
	1,157,333	1,007,122
Premises and equipment expenses		
— Depreciation of property and equipment	**213,619**	138,890
— Amortisation of long term deferred expenses	**11,637**	3,066
— Amortisation of land use rights	**2,878**	859
— Amortisation of intangible assets	**2,900**	120
— Rental and property management expenses	**178,311**	170,813
	409,345	313,748
Business tax and surcharges	**54,637**	149,847
Other general and administrative expenses (Note)	**430,915**	433,117
	2,052,230	1,903,834

Note: Auditor's remuneration for the year ended December 31, 2017 was approximately RMB3,000,000 (2016: approximately RMB987,000).
Listing expense for the year ended December 31, 2017 was approximately RMB9,924,000 (2016: nil).

9. Impairment Losses on Assets

	2017	2016
	RMB'000	*RMB'000*
Impairment losses on:		
Held-to-maturity investments		
Charge for the year	**—**	3,771
Released for the year	**(2,616)**	—
	(2,616)	3,771
Other receivables, prepayments and repossessed assets		
Charge for the year	**15,687**	3,511
Reverse for the year	**—**	(1,077)
	15,687	2,434
Loans and advances to customers	**1,262,506**	1,336,198
Debt securities classified as receivables	**246,822**	1,161,944
Property and equipment	**634**	—
	1,523,033	2,504,347

10. Income Tax Expense

(a) Income tax:

	2017	2016
	RMB'000	*RMB'000*
Current tax:		
— PRC Enterprise Income Tax	**1,347,028**	1,236,102
Over-provision in prior years:		
— PRC Enterprise Income Tax	**(10,885)**	—
Deferred tax		
— Current year	**(220,792)**	(592,497)
	1,115,351	643,605

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC companies is 25%. Pingliang Jingning Chengji Rural Bank Co., Ltd.* ("平涼市靜寧成紀村鎮銀行股份有限公司", "Jianning Chengji Rural Bank"), a subsidiary of the Bank, obtained approvals from tax authorities to adopt the preferential income tax rate of 15%.

11. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the owners of the Bank is based on the following data:

	2017	2016
Profit for the year attributable to owners of the Bank (RMB'000)	**3,358,464**	1,917,033
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share ('000)	**7,525,991**	7,525,991

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year ended December 31, 2017 and 2016.

12. Financial Assets at Fair Value Through Profit or Loss

	2017	2016
	RMB'000	*RMB'000*
Financial assets held for trading (Note)	**249,636**	539,603

Note:

	2017	2016
	RMB'000	*RMB'000*
Debt securities issued by the following institutions in Mainland China:		
— Banks and other financial institutions	**—**	539,603
— Corporations	**249,636**	—
	249,636	539,603
Analysed as:		
Listed outside Hong Kong	**249,636**	539,603

As at December 31, 2017, no debt securities held for trading were subject to material restrictions on the realisation (2016: nil).

The above debt securities traded on the China Interbank Bond Market are included in "Listed outside Hong Kong".

13. Loans and Advances to Customers

(a) Analysed by nature

	2017	2016
	RMB'000	*RMB'000*
Gross loans and advances to customers		
Corporate loans and advances	**97,253,744**	85,271,605
Personal loans and advances		
— Personal business loans	**6,693,380**	3,696,696
— Personal consumption loans	**3,962,666**	1,703,990
— Residential and commercial mortgage loans	**3,982,054**	2,501,194
	14,638,100	7,901,880
Discounted bills	**18,391,798**	14,681,595
	130,283,642	107,855,080
Less: Provision for impairment losses		
— Individually assessed	**(949,506)**	(709,990)
— Collectively assessed	**(4,079,455)**	(3,045,965)
	(5,028,961)	(3,755,955)
	125,254,681	104,099,125

14. Available-For-Sale Financial Assets

	2017 RMB'000	2016 RMB'000
Available-for-sale debt investments (Note a)	**13,047,235**	6,189,558
Available-for-sale equity investment (Note b)	**10,000**	10,000
	13,057,235	6,199,558
Analysed as:		
Listed outside Hong Kong	**7,716,739**	3,011,221
Unlisted outside Hong Kong	**5,340,496**	3,188,337
	13,057,235	6,199,558

Note: (a)

	2017 RMB'000	2016 RMB'000
Debt securities issued by the following institutions in Mainland China		
— Government	**2,621,959**	1,469,668
— Banks and other financial institutions	**4,615,162**	1,541,553
— Corporations	**368,645**	—
	7,605,766	3,011,221
Asset-backed securities issued by the following institutions in Mainland China:		
— Banks and other financial institutions	**110,973**	—
Trust plans	**792,030**	35,000
Asset management plans	**3,510,178**	2,642,358
Wealth management products issued by other financial institutions	**730,157**	104,555
Investment funds	**298,131**	396,424
	13,047,235	6,189,558

All available-for-sale debt investments were stated at fair value.

The above debt securities traded on the China Interbank Bond Market are included in "Listed outside Hong Kong".

As at December 31, 2017 and 2016, part of the available-for-sale financial assets was pledged for repurchase agreements.

(b) Available-for-sale equity investment

Available-for-sale unlisted equity investment which does not have any quoted market prices and whose fair value cannot be measured reliably is stated at cost less impairment losses, if any.

15. Held-To-Maturity Investments

Analysed by type and location of issuers:

	2017 *RMB'000*	2016 *RMB'000*
Carrying value		
Debt securities issued by the following institutions in Mainland China		
— Government	**2,370,315**	1,902,487
— Banks and other financial institutions	**4,479,509**	2,599,507
— Corporations	**1,700,000**	2,001,577
	8,549,824	6,503,571
Asset-backed securities issued by the following institutions in Mainland China		
— Banks and other financial institutions	**86,000**	248,000
	8,635,824	6,751,571
Less: Provision for impairment losses	**(19,860)**	(22,476)
	8,615,964	6,729,095
Analysed as:		
Listed outside Hong Kong	**8,530,824**	6,729,095
Unlisted outside Hong Kong	**85,140**	—
	8,615,964	6,729,095
Fair value	**8,439,667**	6,821,969

(a) Listed held-to-maturity investments are traded on the China Interbank Bond Market and are included in "Listed outside Hong Kong".

(b) As at December 31, 2017 and 2016, part of the held-to-maturity investments were pledged as security for repurchase agreement.

16. Debt Securities Classified As Receivables

	2017	2016
	RMB'000	*RMB'000*
Debt securities issued by the following institutions in Mainland China:		
— Corporations	**—**	30,000
Trust plans	**10,260,782**	21,570,500
Asset management plans	**33,556,159**	53,926,932
Wealth management products issued by other financial institutions	**6,492,000**	—
	50,308,941	75,527,432
Less: Provision for impairment losses	**(2,126,315)**	(1,879,493)
	48,182,626	73,647,939
Analysed as:		
Unlisted outside Hong Kong	**48,182,626**	73,647,939

Note:

(i) The carrying value of debt securities classified as receivables approximates to their fair value.

17. Debt Securities Issued

	2017	2016
	RMB'000	*RMB'000*
Fixed rates financial bonds	**4,496,189**	—
Fixed rate tier-two capital bonds issued	**3,191,851**	3,189,349
Interbank deposits	**16,272,719**	6,945,546
	23,960,759	10,134,895

18. Dividends

	2017	2016
	RMB'000	*RMB'000*
2015 final dividend (Note)	**—**	602,079

Note: Pursuant to the resolution of the shareholders meeting of 2015 on April 26, 2016, the Bank distributed cash dividends of RMB0.08 per share (tax included) based on number of approximately 7,525,991,000 shares held amounting to approximately RMB602,079,000 during the year ended December 31, 2016.

19. Segment Reporting

The Group manages its business by business lines and geographical areas. Consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group defines reporting segments based on the following operating segments:

Corporate banking

This segment represents the provision of a range of financial products and services to corporations and government agencies. These products and services include corporate loans and advances, deposit taking activities, agency services, consulting and advisory services, remittance and settlement services and guarantee services.

Retail banking

This segment represents the provision of a range of financial products and services to retail customers. These products and services include personal loans and deposit taking activities, bank card business, personal wealth management services and remittance services.

Financial market operations

This segment covers the Group's financial market operations. The financial market operations enters into inter-bank money market transactions, repurchases transactions and investments. It also trades in debt securities. The financial market segment also covers management of the Group's overall liquidity position, including the issuance of debts.

Others

These represent assets, liabilities, income and expenses which cannot directly attributable or cannot be allocated to a segment on a reasonable basis.

Measurement of segment assets and liabilities and of segment income, expenses and results is based on the Group's accounting policies.

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

Segment income, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment income and expenses are determined before intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the reporting period to acquire property and equipment, land use rights and other long-term assets.

(a) Segment results, assets and liabilities

	Year ended December 31, 2017				
	Corporate banking *RMB'000*	Retail banking *RMB'000*	Financial market operations *RMB'000*	Others *RMB'000*	Total *RMB'000*
Operating income					
External net interest income/(expense)	**4,821,768**	**(1,492,356)**	**4,155,577**	**—**	**7,484,989**
Internal net interest (expense)/income	**(510,045)**	**2,490,297**	**(1,980,252)**	**—**	**—**
Net interest income	**4,311,723**	**997,941**	**2,175,325**	**—**	**7,484,989**
Net fee and commission income	**143,852**	**18,329**	**193,895**	**20,595**	**376,671**
Net trading losses	**—**	**—**	**(21,937)**	**—**	**(21,937)**
Net gains arising from investment securities	**—**	**—**	**116,992**	**—**	**116,992**
Foreign exchange loss	**—**	**—**	**—**	**(13,203)**	**(13,203)**
Other operating income	**—**	**—**	**—**	**109,033**	**109,033**
Operating income	**4,455,575**	**1,016,270**	**2,464,275**	**116,425**	**8,052,545**
Operating expenses	**(1,135,524)**	**(259,001)**	**(628,032)**	**(29,673)**	**(2,052,230)**
Impairment losses on assets	**(953,332)**	**(221,122)**	**(332,259)**	**(16,320)**	**(1,523,033)**
Operating profit	**2,366,719**	**536,147**	**1,503,984**	**70,432**	**4,477,282**
Share of profits of associates	**—**	**—**	**—**	**1,798**	**1,798**
Profit before tax	**2,366,719**	**536,147**	**1,503,984**	**72,230**	**4,479,080**
Segment assets	**95,401,308**	**14,576,563**	**159,634,750**	**69,334**	**269,681,955**
Deferred tax assets	**—**	**—**	**—**	**1,465,662**	**1,465,662**
Total assets	**95,401,308**	**14,576,563**	**159,634,750**	**1,534,996**	**271,147,617**
Segment liabilities	**111,026,341**	**85,934,437**	**57,087,564**	**477,535**	**254,525,877**
Dividend payable	**—**	**—**	**—**	**8,701**	**8,701**
Total liabilities	**111,026,341**	**85,934,437**	**57,087,564**	**486,236**	**254,534,578**
Other segment information					
— Depreciation and amortisation	**127,069**	**30,034**	**71,620**	**2,311**	**231,034**
— Capital expenditure	**322,305**	**76,182**	**181,663**	**5,859**	**586,009**

	Year ended December 31, 2016				
	Corporate banking *RMB'000*	Retail banking *RMB'000*	Financial market operations *RMB'000*	Others *RMB'000*	Total *RMB'000*
Operating income					
External net interest income/(expense)	4,481,634	(1,300,804)	3,489,387	—	6,670,217
Internal net interest (expense)/income	(541,726)	2,097,258	(1,555,532)	—	—
Net interest income.	3,939,908	796,454	1,933,855	—	6,670,217
Net fee and commission income/(expense)	137,822	(29,354)	125,002	22,843	256,313
Net trading losses	—	—	(7,983)	—	(7,983)
Foreign exchange gains	—	—	—	9,867	9,867
Other operating income, net	—	—	—	42,499	42,499
Operating income	4,077,730	767,100	2,050,874	75,209	6,970,913
Operating expenses.	(1,113,673)	(209,503)	(560,117)	(20,541)	(1,903,834)
Impairment losses on assets	(1,041,905)	(152,164)	(1,307,844)	(2,434)	(2,504,347)
Operating profit	1,922,152	405,433	182,913	52,234	2,562,732
Share of profits of associates . . .	—	—	—	1,877	1,877
Profit before tax	1,922,152	405,433	182,913	54,111	2,564,609
Segment assets	84,146,645	7,788,170	151,711,042	197,249	243,843,106
Deferred tax assets	—	—	—	1,213,251	1,213,251
Total assets.	84,146,645	7,788,170	151,711,042	1,410,500	245,056,357
Segment liabilities	108,647,076	65,830,577	56,886,747	339,316	231,703,716
Dividend payable	—	—	—	8,997	8,997
Total liabilities	108,647,076	65,830,577	56,886,747	348,313	231,712,713
Other segment information.					
— Depreciation and amortisation	83,612	15,729	42,052	1,542	142,935
— Capital expenditure	273,488	51,448	137,549	5,045	467,530

20. Commitments

(a) Credit commitments

The Group's credit commitments take the form of approved loans with signed contracts, bank acceptances, letters of credit and financial guarantees.

The Group provides financial guarantees to guarantee the performance of customers to third parties. Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

	2017	2016
	RMB'000	*RMB'000*
Loan commitments	**24,000**	—
Acceptances	**29,352,762**	31,392,837
Letters of guarantees	**516,209**	431,443
	29,892,971	31,824,280

The Group may be exposed to credit risk in all the above credit businesses. Group management periodically assesses credit risk and makes provision for any probable losses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Operating lease commitments

As at December 31, 2017 and 2016, the Group's future minimum lease payments under non-cancellable operating leases for properties are as follows:

The Group as lessee

	2017	2016
	RMB'000	*RMB'000*
Within one year	**150,123**	148,511
In the second to fifth years inclusive	**198,409**	258,832
Over five years	**24,415**	39,961
	372,947	447,304

(c) Capital commitments

At December 31, 2017 and 2016, the Group's authorised capital commitments are as follows:

The Group

	2017	2016
	RMB'000	*RMB'000*
Purchase of property and equipment		
— Contracted for but not provided	**298,819**	142,487

7. Publication of Results Announcement and Annual Report

This results announcement has been published on the HKEXnews website of Hong Kong Stock Exchange (www.hkexnews.hk) and website of the Bank (www.gsbankchina.com). The 2017 Annual Report of the Bank prepared in accordance with the IFRSs will be published on the HKEXnews website of Hong Kong Stock Exchange (www.hkexnews.hk) and website of the Bank (www.gsbankchina.com) and will be despatched to the H Shareholders of the Bank in due course.

By Order of the Board
Bank of Gansu Co., Ltd.*
LI Xin
Chairman

Gansu Lanzhou
March 27, 2018

As of the date of this announcement, the Board comprises Mr. LI Xin and Mr. LEI Tie as executive Directors; Ms. WU Changhong, Ms. ZHANG Hongxia, Mr. LI Hui, Mr. GUO Jirong and Mr. ZHANG Youda as non-executive Directors; and Mr. CHEN Aiguo, Ms. TANG Xiuli, Ms. LUO Mei and Mr. WONG Sincere as independent non-executive Directors.

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