



上海银行  
Bank of Shanghai

智慧金融 · 专业服务

# 2017 Annual Report Bank of Shanghai

Stock Code: 601229





# Important Notice

1. The Board of Directors, the Board of Supervisors, Directors, Supervisors and the senior management of the Bank undertake that the information in this report is true, accurate and complete and contains no false record, misleading statement or material omission, and assume individual and joint liabilities.

2. The Bank's Board of Directors approved the resolution regarding 2017 Annual Report of Bank of Shanghai Co., Ltd. at the 5th meeting of the fifth session of the Board of Directors on 20 April 2018. 18 Directors were eligible to attend this meeting and this meeting was attended in person or by proxy by 16 Directors, among which, Chen Xuyuan (Non-executive Director) authorized Ye Jun (Non-executive Director), Li Chaokun (Non-executive Director) authorized Gan Xiangnan (Non-executive Director), to attend the meeting and vote at the meeting on his behalf. Four members of the Board of Supervisors participated this meeting.

3. According to the profit distribution proposal subject to the approval of Board of Directors, on the basis of the total share capital of 7,805,785,000 shares as at the end of 2017, a cash dividend of RMB5.00 (tax inclusive) for every 10 shares, RMB3,902,892,500 in aggregate and an increase of 30% when compared with the cash dividend for 2016, and four bonus shares for every 10 shares by way of capitalisation of capital reserve, RMB3,122,314,000 in aggregate, to be distributed to all shareholders. The registered capital of the Bank will increase from RMB7,805,785,000 to RMB10,928,099,000 after the capitalisation of capital reserve. Profit distribution proposal shall be submitted to the 2017 annual general meeting for approval.

4. The 2017 financial statements prepared by the Group in accordance with Chinese Accounting Standards have been audited by KPMG Huazhen (Special General Partnership) in accordance with Auditing Standards for the Chinese Certified Public Accountants respectively, with standard unqualified auditor's reports being issued.

5. The financial data and indicators contained in this annual report are prepared in accordance with Chinese Accounting Standards. Unless otherwise specified, all amounts are the consolidated data of the Group and stated in RMB. The "Group" shall be referred to as Bank of Shanghai Co., Ltd. and its subsidiaries.

6. Jin Yu, Chairman of the Bank, Hu Youlian, President, Shi Hongmin, Vice President and Chief Financial Officer, and Zhou Ning, Head of the Planning & Finance Department, hereby warrant and guarantee that the financial statements contained in this annual report are true, accurate and complete.

7. Disclaimer on forward looking statements: The forward-looking statements regarding future plans and development strategies contained in this annual report do not constitute any commitment by the Group to investors. Investors and related parties shall maintain adequate risk awareness of such statements and understand the differences between plans, projections and commitments.

8. Material risk reminder: There was no foreseeable material risk of the Bank. Risks faced by the Bank in its operations mainly include: credit risk, market risk, operational risk and liquidity risk. Various measures were taken by the Bank so as to manage and control various business risks. Please refer to the Chapter "Discussion and Analysis of Operation" for details.

# Definitions

In this report, unless the context otherwise requires, the following terms shall have the meanings set forth below:

Bank	Bank of Shanghai Co., Ltd.
Group	Bank of Shanghai Co., Ltd. and its subsidiaries
Hong Kong Subsidiary	Bank of Shanghai (Hong Kong) Ltd.
BOSC International	BOSC International Company Limited
Central Bank or PBOC	The People's Bank of China
CBRC	China Banking Regulatory Commission
CSRC	China Securities Regulatory Commission
CBRC Shanghai Office	China Banking Regulatory Commission Shanghai Office
SSE	the Shanghai Stock Exchange
Free Trade Zone	China (Shanghai) Pilot Free Trade Zone
Santander	Banco Santander, S.A.
SIPG	Shanghai International Port (Group) Co., Ltd.
Jiayin Investment Company	China Jiayin Investment Co., Ltd.
Shanghai Commercial Bank	Shanghai Commercial Bank Limited
RMB	Renminbi

# Chairman's Statement



2017 marked the end of the Three-Year Development Plan of the second stage of the Bank's "boutique bank" strategy and the first complete year of operation upon its listing. This extraordinary year also saw a new era of Chinese socialism and high quality economic development. In such circumstances, we pursued organic growth by focusing on quality and efficiency. We further improved our financial services to meet the growing demand for the well-being of the general public. This year was also an exceptional year. The financial market was under strict regulation to prevent risks. The development of the banking industry adhered to uphold the traditional value and serve the real economy. As a newly-listed bank, we will develop as a valuable bank and actively explore the source and essence of value creation.

**Create value from supporting real economy.** Providing services for the real economy is one of the major duties and functions of the banking industry. The rapid fast development of the banking industry without simultaneous growth of the real economy is very risky. The growth of real economy is the source of value to be created by the banks. The Bank further optimized its structure and proactively adjusted its structure of assets and liabilities so as to spare resources and attention to support the real economy. As at the end of 2017, the total assets of the Group was RMB1,807,767 million, representing a steady increase of 2.98%; and the balance of loans was RMB664,022 million, representing a rapid growth of 19.86%. In particular, the development of corporate banking business was in line with the national strategic planning and regional economy development. More credits were provided to major industries and sectors that would facilitate the transformation of economic development pattern, optimization of economic structure and change of growth drivers. As at the end of 2017, the balance of corporate loans of the Group was RMB446,592 million, representing an increase of 24.18%. As for retail banking, consumption loans increased significantly as a result of active promotion by the Bank to grasp chances from the growing consumption market. As at the end of 2017, the balance of retail loans of the Group was RMB174,051 million, representing an increase of 46.14%. The balance of personal consumption loans was RMB69,253 million, accounting for 39.79% of the total balance of retail loans, which represented an increase of 16.56 percentage points when compared with the end of the previous year.

**Create value from customer services.** Creating value for customers is the fundamental value of the Bank. Adhering to the traditional value, the banking industry focused on strengthening customer services to meet customers' demands as the primary means to serve the real economy and create value in the long run. We explored the financial needs of corporate and individual customers through personalised services. We enhanced the "one strategy for one customer" policy to satisfy different needs of customers. We offered comprehensive financial services covering all lines of businesses of the Bank and developed operation teams to promptly address customers' needs in a bid to improve customer loyalty and operation efficiency. Through the provision of customer services, we have developed our unique strategies to transform our business and to improve professionalism for sustainable competitiveness. By providing comprehensive financial services, we were pleased to see that the sustainable operation model further improved and higher value was created in all lines of core businesses, including transaction banking, cross-border banking, investment banking, custody banking, supply-chain finance, consumer finance, pension finance, credit card instalment and internet finance.

**Create value from refined management.** From the perspective of value chain, the level of refined management of the entire process from the formation of customers' needs to the realization of the Bank's value has significant effects on the level of value. We improved the strategic management system to focus on value creation. A close-loop management system was established to cover the entire operation from strategic management, business planning, assets and liabilities management, appraisal, resources allocation and risk management, which has facilitated the effective implementation of our strategic plans. In respect of operation management, a strategy-focused structure was established. A targeted management system was also established according to our strategy to identify and eliminate problems by involving all organization, departments and personnel from the front, middle and back offices. In respect of risk management, operational risk management system was improved. Operation and practices were strictly regulated and no material operational risks occurred during the year. The transition period of the adoption of new capital accord was shortened. Customer and business approval, risk pricing, limit management and capital measurement was enhanced. In respect of credit management, the management in terms of overdue loans and default interest payment, credit reform, special mention loans and early warning was improved. The Bank sought to adopt a low-cost credit management model and maintained its prudent operation through enhanced dynamic management and strict classification of loans. As at the end of 2017, the non-performing loans ratio of the Group reduced by 0.02 percentage point to 1.15%, and the ratio of loans overdue for 90 days and more decreased to 0.70, both of which were relatively low in the industry.

**Create value from innovation.** Innovation is the power for sustainable value creation. We deeply understand that innovation simply for profits is not sustainable. We adhere to the original intention and base innovation on market trend and customers' needs. In view of the revolutionary impact on traditional banking business brought by new Fintech, we expect that the integration of technology and finance will accelerate. We proactively adopt Fintech and broadly apply the technology to accelerate the development of smart financing to take the lead in competition. We insist on prioritizing the development of mobile channels, strengthening the application of new technology such as bio-recognition to provide personalized, intelligent and comprehensive internet financial services to precisely cater to different needs of customers and to improve customer experience. As at the end of 2017, the online and self-service transaction rate of the Bank was 90.84%, representing a year-on-year increase of 5 percentage points. Numbers of customers of personal mobile banking and personal WeChat banking were 3,137,900 and 2,165,500, representing an increase of 43.92% and 55.36%, respectively, when compared with the end of last year. The Bank won the Best Mobile Banking Award of Regional Commercial Bank for 2017 by CFCA. We improved our online product offering, enhanced cooperation with Fintech enterprises and renowned internet platforms to build a new model of "internet + industry + finance". We structure our business according to industry development to enhance the ability of customer acquisition and business development. As at the end of 2017, the number of individual online customers was 12.8657 million, which was among the highest in the industry. We accelerated the digitalization process and introduced precise management innovation by using big data. Our marketing, risk management, channel layout and operation management are more intelligent, precise and advanced, and the management level was further upgraded.

Our continuous exploration of source of value creation will eventually attribute to realization of value for stakeholders. In this regard, we have established comprehensive information disclosure system. We have also constructed a multi-layered investor relationship management structure to enhance active communication with investors to convey our value and seek extensive recognition. We pay attention to the voice of the market and constantly review our value judgement to improve our operation management and to promote the recreation of value. We seek to establish a close-loop management to align our sustainable growth with the market, which will be our new pursuit.

2017 saw the re-election of the Board of Directors to replace retiring directors. I would like to express my deepest appreciation to the directors for their professional advice and diligent works for the continuous development of the Bank as a "boutique bank". On the other hand, professional experts and industry specialists with extensive experience have joined the Board of Directors. I hereby extend my warmest welcome to them and believe that all directors will devote their professionalism and diligence to the development of the Bank and constantly promote the creation of value.

In 2018, the global economy is expected to continue to recover yet with a number of uncertainties. As China is strengthening the prevention of major risks and regulation, the banking industry will continue face numerous challenges. However, there is huge potential in the new era. We will embrace a new and regulated environment. It is exactly the right time for us to take actions to develop the century-old bank into a "boutique bank". I believe that if we adhere to the idea of value creation and be persistent and perseverant, and with the support of shareholders, customers and all stakeholders, we will seize the new opportunity to accelerate the construction of "boutique bank" and create more value for investors and the society as a whole.

Chairman:



上海银行  
Bank of Shanghai

## President's Statement



2017 was a challenging year for the banking industry under a radically changing business environment. In addition to the existing strategies, the Bank has adopted new strategies to deal with market changes and achieved record high business results for the year. Under the leadership of the Board of Directors and the support from the society, we pursued our prudent strategy for business development and innovation and achieved outstanding improvement in all lines of our business.



**Operation strengths further enhanced for value creation.** In response to the accelerated economic transformation and upgrade, deleverage and strict regulation, we proactively explored opportunities of business development for higher value. Our profitability was further improved. The net profit attributable to shareholders of the Bank was RMB15.328 billion for the year, representing a year-on-year growth of 7.13%, above the average of the medium-scale listed banks. The assets quality was further enhanced. Our non-performing loans ratio was 1.15%, representing year-on-year decrease of 0.02 percentage point. The allowance to non-performing loans was 272.52%, representing a year-on-year increase of 17.02 percentage points, a relatively high level among the peers. We further advanced our market position and ranked 85th and 89th in the rankings of the Top 1000 World Banks in terms of tier-1 capital and total assets, respectively, by *The Banker*, climbing 6 and 8 places as compared with previous year, respectively. Our integrated operation was on its sound development track in general and the overall operation of investment banking, funds and assets management saw significant improvement. We have established Shanghai ShangCheng Consumer Finance Corporation Limited to improve inclusive finance and consumer finance service capability.

**Business structure was further optimized during the process of transformation.** To maintain sustainable growth, we pursued business transformation to develop existing business and to explore new business opportunities. We modified our business structure to keep pace with national and local government policies to support the Belt and Road Initiative, the Beijing-Tianjin-Hebei Economic Integration and the Yangtze River Economic Zone. More financial support was devoted to major industries, major projects and major infrastructure projects and development of inclusive finance, and more attention was placed on our core business. The balance of loans in Renminbi and foreign currencies increased by 19.86% when compared with the beginning of the year, representing a year-on-year growth of 16.60 percentage points. The ratio of credit assets to total assets recorded a year-on-year growth of 5.17 percentage points. In line with the optimization of business structure, our income structure also improved. The net fees and commission income accounted for 18.89% of the net income in 2017, representing an increase of 0.99 percentage points as compared with previous year. It is our strategy to accelerate the development by focusing on "four banking businesses": The product offering of transaction banking was improved by introducing services to cover the entire chain of the industries and operation. The value of banking services were generated through the integration of our services. We developed cross-border banking through various platforms focusing on the development of cross border capital projects, internet+ cross border business and free trade zone business. Investment banking focused on the development of light assets business and accelerated the transformation towards capital market business. The professionalism of custody banking was further improved to strengthen the custody, management and supervision. In respect of consumer finance, we focused on customer acquisition and marketing activities for consumer finance, wealth management and pension finance. We continued to develop as an expert in the provision of wealth management and pension finance to city residents. Customer services and operation capacity, which are the "two cores" of our business, were enhanced and the professionalism of our business was further improved.

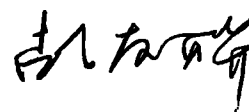
**Business foundation was further solidified to maintain long-term stability.** Risks are always the major concerns in bank operation and management. In face of increasingly complicated internal and external environments, on one hand, we have strengthened risk control and management to strictly execute our disciplines. In term of operational risk, we have strictly complied with laws and regulations, optimized our operational risk management structure, maintained our operational risks at controllable level, and managed to establish a comprehensive risk management system covering benchmarking, assessment and accountability. In respect of credit risk, we have strengthened risk management especially in areas such as large deal and potential risk and continued to reduce the credit limits offered to industries with "high pollution, high energy

consumption and overcapacity". For liquidity risk, we have made much more detailed management strategies to deal with various complicated kinds of liquidity risk, and strengthened the ability of market research and forecast, in order to deal with market changes timely. On the other hand, we have enhanced the ability to create value from risk control and management. The improvement of approval procedure and the delegation of authority limit have provided great support to the development of core businesses in our strategy. The ability of management based on statistical analysis has been further improved through the application of big data and the construction of management system according to New Basel Capital Accord. The establishment of the business centers for special assets has enhanced the professional capability of running special business and has effectively strengthened the collection and recovery of risk assets in that area. We have studied with great effort and run all our business in compliance with the regulatory policies made by governments and authorities, including monitoring the flow of market funds, and adjusting the strategies of interbank business and wealth management.

**Our development level was further upgraded by reformation and innovation.** Focusing on the factors that are beneficial to upgrade our development level, we accelerated the pace of reformation and innovation to strengthen our business capacities and boost the development of the Bank. We focused on the development of channels and promoted the integration of online and offline businesses. Online direct banking is the core of our online operation. We actively applied Fintech to payment and settlement, wealth management and credit to strengthen customer acquisition. We had more than 12 million e-account customers as at the end of the year and the value of transactions was more than RMB160 billion. For offline operation, we reformed the outlet operation and improved our customer services through the establishment of smart branches and standard services. In respect of product offerings, we further improved our product innovation and support system and strengthened our management of innovation and efficiency of product marketing through enhancing our innovation management and in response to the changes in market and customer needs. In respect of human resources, we have built a professional team and a talent pool as well. According to our strategies, we optimized the structure of the professional team. We have hired more high-potential professionals to build up a talent pool. Intensive training is provided for employees to improve the professionalism of our employees. In respect of management, we have further improved the overall assets and liabilities management ability by establishing a dynamic assets and liabilities management system covering research, analysis, strategy study, policy adjustment and FTP transmission. The assets and liabilities strategies can be promptly adjusted to allow quick response to market changes.

2018 is the 40th anniversary of the reform and opening of China and a critical year for the 13th Five-Year Plan. It is also the first year of the Bank's new round strategic development. According to our strategy, we aim to establish "boutique bank" with the philosophy of innovation and perfection, to response to market changes proactively to capitalize the opportunities and turn into a success of the Bank.

President:




上海银行  
Bank of Shanghai

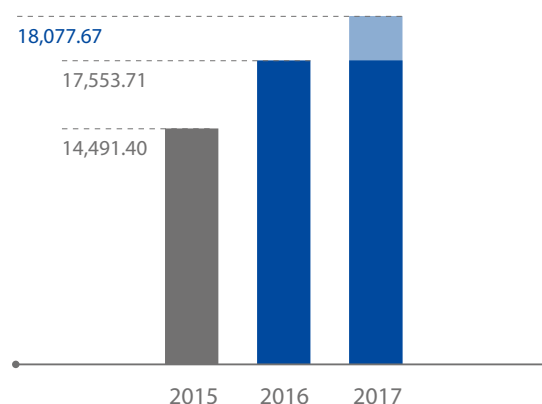


# Operation Results

## Total Assets

(Unit: RMB100 million)

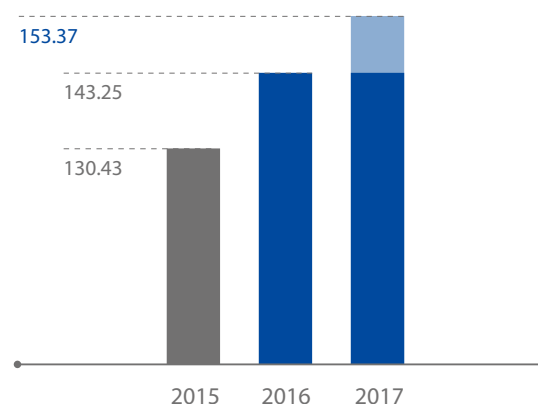
↗ 2.98%



## Net Profit

(Unit: RMB100 million)

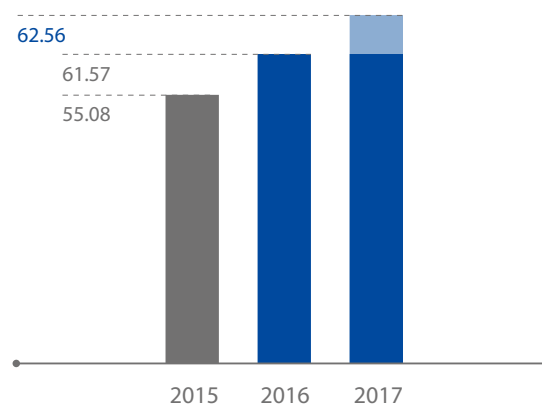
↗ 7.06%



## Net Fee and Commission Income

(Unit: RMB100 million)

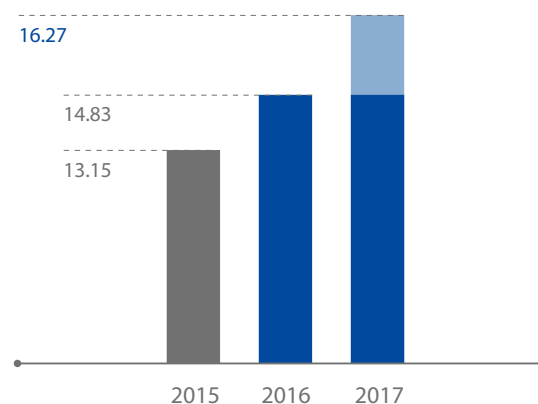
↗ 1.61%



## Net Assets Per Share Attributable to Shareholders of the Bank

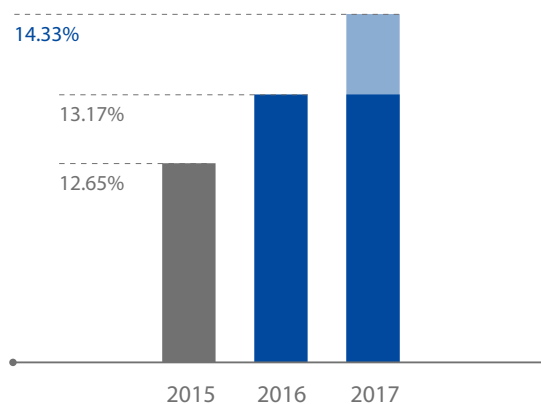
(Unit: RMB)

↗ 9.17%



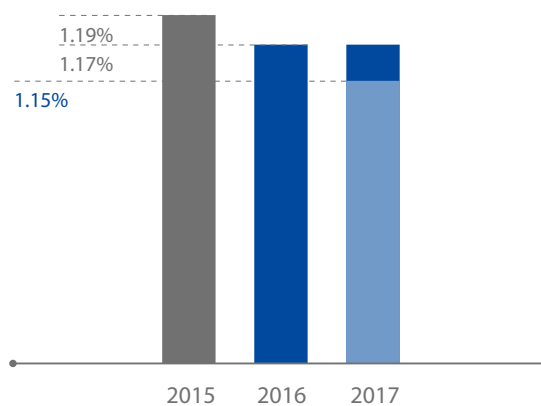
## Capital Adequacy Ratio

↗ 1.16 p.p



## Non-performing Loans Ratio

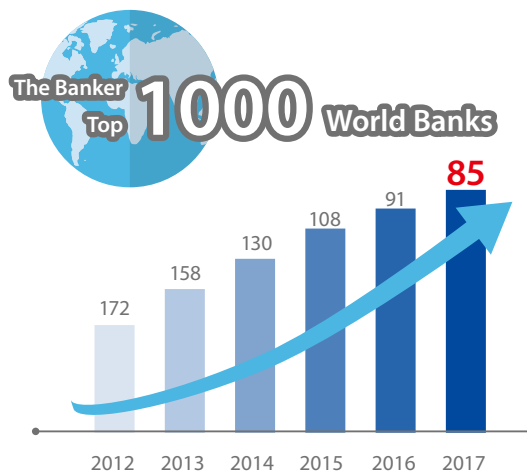
↘ 0.02 p.p



## Ranking

**The Banker**  
GLOBAL FINANCIAL INTELLIGENCE SINCE 1926

The Bank was ranked 85th among the "Top 1000 World Banks" in terms of tier-1 capital by *The Banker*, climbing 6 places as compared with previous year.



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# Bank of Shanghai

## Company Profile and Major Financial Indicators



# Company Profile and Major Financial Indicators

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- I. Legal name in Chinese:** 上海银行股份有限公司 (abbreviated as "上海银行")  
**Legal name in English:** Bank of Shanghai Co., Ltd.(abbreviated as "Bank of Shanghai", "BOSC")
- II. Legal representative:** Jin Yu
- III. Board secretary:** Li Xiaohong  
**Representative of securities affairs:** Du Jinchao  
**Mailing address:** No. 168, Middle Yincheng Road, Pudong New District, Shanghai, China  
**Telephone:** 8621-68476988  
**Facsimile:** 8621-68476215  
**E-Mail:** ir@bosc.cn
- IV. Registered address:** No. 168, Middle Yincheng Road, China (Shanghai) Pilot Free Trade Zone  
**Business address:** No. 168, Middle Yincheng Road, Pudong New District, Shanghai, China  
**Postal code:** 200120  
**Website:** <http://www.bosc.cn><sup>1</sup>  
**E-Mail:** webmaster@bosc.cn  
**Telephone:** 8621-68475888  
**Facsimile:** 8621-68476215  
**Service hotline:** 95594
- V. Official newspaper for information disclosure:** *China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily*  
**Website for annual reports:** the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>)  
**Location where copies of the annual report are kept:** Office of the Board of Directors of the Bank and the Shanghai Stock Exchange
- VI. Class of shares:** Ordinary A shares  
**Stock exchange on which shares are listed:** Shanghai Stock Exchange  
**Stock name:** Bank of Shanghai  
**Stock code:** 601229  
**Class of shares:** Preference Shares  
**Stock exchange on which shares are listed:** Shanghai Stock Exchange  
**Stock name:** 上银优 1  
**Stock code:** 360029
- VII. Date of initial registration:** 30 January 1996  
**Date of change of registration:** 29 September 2017  
**Registration authority:** Shanghai Administration of Industry and Commerce  
**Unified social credit code of legal person business license No.:** 91310000132257510M

Note: The official website of the Bank has changed to [www.bosc.cn](http://www.bosc.cn) from 24 April 2017. The original official website of the Bank ([www.bankofshanghai.com](http://www.bankofshanghai.com)) will remain in service. The email addresses has changed to [ir@bosc.cn](mailto:ir@bosc.cn) and [webmaster@bosc.cn](mailto:webmaster@bosc.cn) and the original email addresses ([ir@bankofshanghai.com](mailto:ir@bankofshanghai.com) and [webmaster@bankofshanghai.com](mailto:webmaster@bankofshanghai.com)) will continue to receive email.

## VIII. Other information

**Audit firm:** KPMG Huazhen(Special General Partnership)

**Business address:** 8th Floor, KPMG Tower, Oriental Plaza, 1 East Chang an Avenue, Beijing, China

**Auditors:** Jin Naiwen, Zhang Chenchen

**Sponsor responsible for continuous supervision during the reporting period:** Guotai Junan Securities Co., Ltd.

**Business address:** 5th Floor, China Financial Information Center, 18 Dongyuan Road, Pudong New District, Shanghai, China

**Representatives of sponsor:** Xu Lan, Zeng Dacheng

**Supervision period:** 16 November 2016 to 31 December 2018 (Initial Public Offering)  
12 January 2018 to 31 December 2019 (Preference Shares)

**Entrusted organization for outstanding ordinary shares with selling restrictions:** Shanghai Branch of China Securities Depository and Clearing Co., Ltd.

## IX. The annual report has been prepared in both Chinese and English. Should there be any difference between the two versions, the Chinese version shall prevail.

## X. Rankings, Ratings and Awards

### (1) Ranking in the banking industry

The Bank was ranked 85th and 89th in the rankings of the Top 1000 Word Banks in terms of tier-1 capital and total assets, respectively, by *The Banker*, climbing 6 and 8 places as compared with previous year, respectively.

### (2) Ratings

As at the end of the reporting period, the Bank obtained a "Baa3" long-term issuer and long-term deposit rating as well as a "Prime-3" short-term issuer and short-term deposit rating from Moody's Investors Service with stable outlook.

### (3) Awards during the reporting period



#### Awards

#### Awarding Party

Best Development Award of Syndicated Loan Business, Best Project Award

Outstanding Bank Cards Business

2016 Best Regional Private Bank

2017 Five Star Outlets with Outstanding Services in China Banking Industry

Best Member Award

Best Member of Forward Exchange and Swap

Best Member of Standard Foreign Exchange Swap

Best Member of Currency Swap

Best Member of Forward Exchange and Swap with the Most Market-Making Potential

Best Member of Foreign Currency Lending

2016 Best Progress Institution Award

China Banking Association

China Foreign Exchange Trade System

National Interbank Funding Center

## Company Profile and Major Financial Indicators



Awards	Awarding Party
2016 Outstanding Wealth Management Direct Financing Instrument and Wealth Management Plan	China Banking Wealth Management, Registration & Depository Center
2016 Outstanding Operation and Maintenance of Settlement and Clearing System in Shanghai	Shanghai Branch of the People's Bank of China
"Institutional Contribution Award of the Year" in Shanghai Banking Industry Annual Award	Shanghai Banking Association
"Best Syndicated Loan Business" in Shanghai Banking Industry Annual Award	
2017 Outstanding Clearing Member	Shanghai Clearing House
2016 Outstanding Partner in Small and Medium Enterprise Financing Services	Shanghai Small and Medium Enterprise Development Work Leading Group Office
2016 Gold Industry Service Award	Shanghai Futures Exchange
"Financial Poverty Alleviation Award" in the Third Session of China (Shanghai) Listing Companies' Social Responsibility Summit	The Listed Companies Association of Shanghai, China Business Network and Shanghai Federation of Economic Organizations
Top 100 Enterprise in China	Chinese Business Top 100
2017 Top 100 Enterprise in Shanghai	Shanghai Enterprise Confederation and Shanghai Enterprise Directors Association
2017 Top 100 Enterprise in Service Industry in Shanghai	
The Best Mobile Banking Award of Regional Commercial Bank for 2017	China Financial Certification Authority
Best Private Wealth Philanthropic Services Award in China	The Asian Banker
Most Influential Commercial Bank Brand	China Business Network and Shanghai Lujiazui Finance and Trade Zone Development Bureau
BOSC Express was recognized as one of Top 10 Fintech Innovation Case in the Second Session Ceremony	Financial City and New Finance Union
Outstanding Internet Finance Platform for 2017	Shanghai Chief Information Officer Union
China Banking Innovation Pioneer for 2017	Securities Times
Outstanding Mobile Payment Bank of the Year	The Economic Observer
The Most Growth Value Award for 2017 among the Chinese Listed Company's Reputation List	National Business Daily
Top 10 Most Competitive City Commercial Bank for 2016	21st Century Business Herald
Most Influential Financial Bank of the Year	Financial Times (China)
Top 10 Internet Wealth Management	
"Excellent City Commercial Bank in Wealth Management of the Year" in the Eighth Session of "Golden Wealth Management"	Shanghai Securities News
Most Reliable Banking Brand for 2017 in the 15th Session of China Financial Billboard	Hexun.com
Most Innovative Bank	Eastmoney.com
2017 Growth Value Award on Fintech of China Business Journal	Chinese Business Journal
2017 Excellent Competitive Bank in Risk Management	
Most Influential Private Bank in JinZhen Award	Wealth Plus
Best Innovative Private Bank for 2016 in JieFu Awards	Caishiv.com
Most Promising Credit Card Bank of the Year	Investor Journal
Best Regional Credit Card Bank of the Year	
The Best Employer in China for 2017 – Top 30 Best Employers in Shanghai	Zhaopin.com and Social Survey Research Center of Peking University
Top 15 Regional Financial Institution Employer for University Graduates in China for 2017	ChinaHR.com
Best Campus Employer Award	ATA (American Testing Authority)



## II. Major accounting data and financial indicators for the past three years

### (1) Major accounting data

Unit: RMB'000

Item	2017	2016	Change	2015
Operating income	33,124,995	34,403,517	-3.72%	33,163,361
Net profit attributable to shareholders of the Bank	15,328,499	14,308,265	7.13%	13,002,367
Net profit attributable to shareholders of the Bank after detecting extraordinary items	15,235,509	14,235,213	7.03%	12,914,216
Net cash flow from operating activities	-60,767,289	170,845,912	-135.57%	60,143,077
Net interest income	19,117,309	25,998,109	-26.47%	26,681,925
Net fee and commission income	6,255,786	6,156,844	1.61%	5,508,428
Other operating income	7,751,900	2,248,564	244.75%	973,008
General and administrative expenses	8,105,358	7,875,911	2.91%	7,622,511
Impairment losses of assets	8,671,315	9,576,344	-9.45%	7,834,437
Operating profit	15,985,723	16,207,909	-1.37%	15,922,446
Profit before tax	16,082,462	16,319,373	-1.45%	16,051,527
Net profit	15,336,793	14,325,064	7.06%	13,043,142
	<b>31 December 2017</b>	<b>31 December 2016</b>	<b>Change</b>	<b>31 December 2015</b>
Total assets	1,807,766,938	1,755,371,102	2.98%	1,449,140,487
Total loans and advances to customers	664,021,617	553,999,300	19.86%	536,507,626
Total liabilities	1,660,325,535	1,639,152,488	1.29%	1,356,306,092
Shareholders' equity	147,441,403	116,218,614	26.87%	92,834,395
Net assets attributable to shareholders of the Bank	146,985,136	115,769,223	26.96%	92,390,498
Net assets attributable to holders of ordinary shares of the Bank	127,027,966	115,769,223	9.73%	92,390,498
Total deposit	923,585,324	849,073,364	8.78%	792,679,886
Net capital	169,959,268	136,684,201	24.34%	113,079,197
Total risk-weighted assets	1,185,925,725	1,037,999,210	14.25%	894,119,145
Provision for impairment losses	-20,830,293	-16,602,775	25.46%	-15,142,379
Share capital	7,805,785	6,004,450	30.00%	5,404,000
<b>Per share (RMB/share)</b>				
Basic earnings per share	1.96	2.01	-2.49%	1.90
Diluted earnings per share	1.96	2.01	-2.49%	1.90
Basic earnings per share after detecting extraordinary items	1.95	1.99	-2.01%	1.89
Net cash flow from operating activities per share	-7.78	21.89	-135.54%	8.56
Net assets per share attributable to holders of ordinary shares of the Bank	16.27	14.83	9.71%	13.15

Notes: 1. In July 2017, the Bank implemented profit distribution plan for 2016 and plan of capital reserve capitalisation. Pursuant to which, based on the total number of ordinary shares of 6,004,450,000 shares as at the end of 2016, the Bank capitalized the capital reserve in a proportion of 0.3 share for every share. The total number of shares to be issued by capitalisation of the capital reserve was 1,801,335,000 shares. After the completion of capital reserve capitalisation, the total number of ordinary shares of the Bank was 7,805,785,000 shares.

## Company Profile and Major Financial Indicators

2. Earnings per share and weighted average of return on net assets were calculated according to Compilation Rules for Information Disclosures by Companies that Offer Securities to the Public (No. 9) – Calculation and Disclosure of Rate of Return on Equity and Earnings per Share (2010 Revision). Indicators per share for each period under comparison were recalculated based on the adjusted number of shares. The Bank issued non-cumulative preference shares of nominal value of RMB20 billion through private placement in December 2017 but no dividend was distributed in respect of preference shares. Therefore, in calculating earnings per share, net assets per share and weighted average of return on net assets, "net assets per share attributable to holders of ordinary shares of the Bank" shall not exclude dividends of preference shares while average net assets and net assets shall exclude preference shares;

3. In accordance with Notice of the Ministry of Finance on Revising and Issuing the Format of Financial Statements of General Enterprises(No. 30 [2017] of the Ministry of Finance) issued by the Ministry of Finance on 25 December 2017, the gains and losses on disposal of assets and government grants in relation to daily operation of the Bank which were classified in "non-operating income" and "non-operating expense", respectively, shall be reclassified into "gains on disposal of assets" and "other income", respectively. The gains on disposal of assets for periods under comparison were adjusted retrospectively while operating income and other indicators were recalculated. The aforesaid requirements did not have any effect on the Profit before tax and net profit of the Bank.

### (2) Major financial indicators

Profitability	2017	2016	Change (percentage points)	2015
Average of return on assets	0.86%	0.89%	-0.03	0.99%
Weighted average of return on net assets attributable to ordinary shares of the Bank	12.63%	14.35%	-1.72	15.67%
Weighted average of return on net assets after detecting extraordinary items	12.55%	14.28%	-1.73	15.56%
Net interest spread	1.38%	1.74%	-0.36	1.83%
Net interest margin	1.25%	1.73%	-0.48	2.03%
Return on risk-weighted assets	1.38%	1.48%	-0.10	1.62%
Cost-to-income ratio	24.47%	22.89%	1.58	22.98%
Proportion of net fee and commission income to operating income	18.89%	17.90%	0.99	16.61%
Capital adequacy	2017	2016	Change (percentage points)	2015
Capital adequacy ratio	14.33%	13.17%	1.16	12.65%
Tier-1 capital adequacy ratio	12.37%	11.13%	1.24	10.32%
Core tier-1 capital adequacy ratio	10.69%	11.13%	-0.44	10.32%
Asset quality	2017	2016	Change (percentage points)	2015
Non-performing loans ratio	1.15%	1.17%	-0.02	1.19%
Allowance to non-performing loans	272.52%	255.50%	17.02	237.70%
Allowance to total loans ratio	3.14%	3.00%	0.14	2.82%

### III. Quarterly major financial data for 2017

Unit: RMB'000

	First quarter (January to March)	Second quarter (April to June)	Third quarter (July to September)	Fourth quarter (October to December)
Operating income	8,185,120	7,208,553	9,032,922	8,698,400
Net profit attributable to shareholders of the Bank	3,874,419	3,921,438	3,861,717	3,670,925
Net profit attributable to shareholders of the Bank after detecting extraordinary items	3,854,071	3,888,744	3,831,104	3,661,590
Net cash flow from operating activities	-23,513,436	-48,355,112	-14,745,030	25,846,289

## IV. Extraordinary items and amount

Unit: RMB'000

Extraordinary items	2017	2016	2015
Income from bank card overdue fee	71,318	59,512	55,302
Government grants	29,105	47,451	20,997
Net gains / (losses) from disposal of fixed assets	9,292	-5,296	-4,026
Income from the compensation of litigation and breach of contract	6,035	45,338	75,416
Income from clean up the suspense account	2,944	2,519	5,322
Net income from disposal of repossessed assets	613	-	8,257
Net losses from disposal of other assets	-87	-10,101	-909
Donation expenditure	-15,206	-44,055	-21,793
Other profit and loss	31,735	10,800	-5,254
Net extraordinary gains/(losses)	135,749	106,168	133,312
Tax effects of the above items	-38,473	-29,476	-40,365
<b>Total</b>	<b>97,276</b>	<b>76,692</b>	<b>92,947</b>

## V. Other financial information disclosed in accordance with the regulatory requirements

Item	Benchmark	31 December 2017	31 December 2016	31 December 2015
Liquidity ratio	≥25%	41.71%	51.92%	39.84%
Liquidity coverage ratio	≥100%	141.52%	152.01%	122.02%
Loan to deposit ratio		71.90%	65.25%	67.68%
Proportion of loans to the largest single customer	≤10%	4.93%	4.25%	6.35%
Proportion of loans to the top 10 customers	≤50%	27.99%	24.44%	23.81%

## Business Summary

Major business and operation model

Overview, development and trend of the industry

Development strategies, investment value and core competitive strengths

Business plans for 2018

Potential risks

Material changes in major assets





## I. Major business and operation model

The Bank is mainly engaged in commercial banking business and its scope of business includes taking public deposits; granting short-, medium-, and long-term loans; domestic and international settlement; bills acceptance and discounting; issuance of financial bonds; distribution, redemption and underwriting of government bonds; trading of government and financial bonds; interbank lending and borrowing; trading and agency trading of foreign exchange; bank card services; letter of credit and guarantee services; agency services for payment and collection of receivables and insurance services; safe deposit box services; credit investigation, advisory and verification services; and other business activities approved by the banking regulatory authorities of China, PBOC, SAFE and other regulatory authorities.

Adhering to the strategic goal of becoming a "boutique bank" based on the core value of sincerity, honesty and righteousness, the Bank promoted its professional operation and sophisticated management and provided comprehensive financial service solutions for the governments, enterprises, individuals and other banks and financial institutions through its cross-border and integrated business platform and online and offline service channels in order to position itself as a corporation offering smart financial and professional services.

During the reporting period, the Bank actively pursued business transformation to upgrade customer services in compliance with the regulatory requirements and according to the market

changes. On one hand, the Bank offered services to support the regional economic development according to the key national and local strategies and promoted sustainable growth of various businesses. In addition, the Bank focused on the financial services for technology and innovation finance and supply-chain finance, and provided specific product portfolio based on the financial needs of different customers in order to improve the standard of its comprehensive financial services and professional services. On the other hand, the Bank put efforts into the development of strategic business by optimizing the systems and streamlining business procedures. With the active development of transaction banking, cross-border banking, investment banking, custody banking and featured businesses such as consumer finance, wealth management, pension finance and internet finance, the Bank gained higher recognition from customers and its market competitiveness was further strengthened.

## II. Overview, development and trend of the industry

In 2017, macro economy of China maintained steady growth at a relatively high rate, with more focus on the quality and efficiency. The central bank adopted prudent and neutral monetary policy and the regulatory authorities put more emphasis on the control and prevention of financial risk in order to promote the stable and sound development of the banking industry. In 2017, the operating condition of banks saw improvement with higher growth in profits. Amid the stringent regulation and financial deleveraging, banks focused on their principal businesses and further optimized the assets and liabilities structure. Interbank assets and liabilities

continued to decrease and general scale of off-balance sheet business recorded slower growth. Nonetheless, the implementation of various key national strategies, expansion of emerging industries and accelerated development of Fintech brought new business opportunities and growth points of profits for the banking industry. The banking industry actively supported the promotion of national strategies and development of emerging industries and focused on offering inclusive financial services and services for public benefits. Service efficiency continued to improve with wider application of scientific technology and innovation of business models, which further strengthened the service abilities for the real economy.

### III. Development strategies, investment value and core competitive strengths

#### Strategic vision

The Bank aims to become a boutique bank with professional services and excellent quality. The Bank achieves this goal mainly through four aspects, namely the services, management, finance and brand.

#### Positioning

The Bank strives to become an comprehensive financial service provider for the small and medium enterprises; an expert in wealth management and pension finance for urban residents; a leading transaction service provider for the financial market based in Shanghai, an international financial centre; a cross-border financial service platform supported by its subsidiary in Hong Kong and the cooperation among the "Bank of Shanghai" in Shanghai, Hong Kong and Taiwan and Santander; and a unique internet financial service provider with advantage of traditional banking services.

#### Development strategies

1. Accelerated transformation. In response to the changing economic and financial conditions, the Bank promotes reforms and innovation, restructuring and comprehensive financial services and transforms its channels based on transactions in order to solve the bottleneck of its business development and accelerate the transformation of the development model.

2. Promoted business features. For the corporate banking business, the Bank focuses on the comprehensive financial services and development of key aspects, promotes technology and innovation financial services and provides featured services including transaction banking, cross-border banking, investment banking

and custody banking. For the retail banking, the Bank further expands the consumer finance business and improves the service capabilities of wealth management and pension finance. For the financial market business, the Bank facilitates the transformation of its operation model and business structure in compliance with the regulations and policies.

#### Investment value and core competitive strengths

The Bank maintains effective corporate governance structure. There is a clear division of responsibilities among the shareholders' general meeting, the Board of Directors, the Board of Supervisor and the senior management for checks and balances and effective cooperation. Operating efficiency has been further enhanced through the improvement of structure and management model.

The Bank has established a strong customer base and an extensive and multi-layer distribution network. With its good reputation and recognition in Shanghai, the Bank has acquired a number of quality customers and developed a business network covering major cities in Yangtze River Delta, Bohai Rim, Pearl River Delta and Central and Western China.

The Bank promotes its corporate banking business with adhesion to comprehensive financial services as the major business line. Strengthening its professional operation capability which featured its businesses in transaction banking, cross-border banking, investment banking, custody banking and other domains, the Bank facilitated its business transformation from a conventional money lender into a comprehensive financial service provider.

The Bank focuses on transformation and upgrade of retail banking. The Bank has adjusted the retail assets structure through the development of consumer finance business in order to build its professionalism in wealth management and pension finance businesses. The Bank has accumulated extensive experience in professional pension finance service in Shanghai over the years with a leading position in the market.

The Bank has established a unique cross-border financial service platform supported by its subsidiary in Hong Kong and the cooperation among "Bank of Shanghai" in Shanghai, Hong Kong and Taiwan and Santander. Together with the global network strengths of strategic investors, our cross-border financial service capacity and competitiveness have been increasing.

The Bank has a comprehensive integrated business structure. The business of BOSC Hong Kong, BOSC International and BOSC Asset grow soundly, the rural banks maintain their steady business growth, and the early development of Shanghai ShangCheng Consumer Finance Corporation Limited is smooth. The synergy effects have been significantly improved through further integration of internal resources of the Group.

The Bank has enhanced its comprehensive risk management system in line with its business development, covering all major risks and business processes. The structure and duties of the internal control system are clear, which can effectively improve the assets quality.

The Bank has further strengthened the innovation of Fintech systematically to promote the application of technologies in business operation. An application system of big data has been established to facilitate digital, automatic and smart approaches for the development of customer base and risk control, which has reinforced the competitive strengths in the Bank's financial services. Aiming to develop the brand of smart financial and professional services, the Bank continues to optimize its channel development and structure, and puts more efforts into the innovation of internet financial services with focus on digitalized and smart services to enhance customers' experience. The omni-channel operation of the Bank has been further upgraded.

The brand influence of the Bank continues to rise. The Bank was ranked 85th and 89th among the Top 1000 World Banks in terms of tier-1 capital and total assets, respectively, by The Banker, a U.K. magazine.

## IV. Business plans for 2018

In 2018, the general economy will see a steady improvement. According to the Three-Year Development Plan (2018-2020) and its target positioning, the Bank will actively capture opportunities and cope with the challenges in response to the external changes in order to maintain sound growth of various businesses. The Bank will speed up the business transformation and development of featured businesses, and enhance its support to the real economy. Focusing on the optimization of assets and liabilities structure and income structure, improvement in risk control and capital constraint and strengthening of cost management, the Bank will enhance its unique competitive strengths and sustainability. In general, the total assets and liabilities of the Bank are expected to expand soundly with more optimized structure, the operating income and net interest spread will continue to increase and profits will record steady growth.

## V. Potential risks

In 2018, the general economic and financial conditions will maintain positive development with various uncertainties. In China, the overall economy will see stable growth, despite the long-standing and deep-seated cyclical and structural problems. The reform on financial regulations and the recent macro policies in respect of the management of significant risk exposure, liquidity

risk management and other areas will have impact on the capital and financial markets. Driven by faster development of Fintech, the customer acquisition channels, business procedures and risk control models for small and micro enterprisers, personal loan business, credit card and other businesses of banks have imposed higher requirement of internet financial services and application of big data.

The Bank will explore business opportunities in the course of industry upgrade according to the economic development trend. For risk management, the Bank will follow the principle of value creation and maintain effective balance between business development and risk control. The Bank will thoroughly analyze the monetary trend and improve its future plans through flexibly optimizing the assets and liabilities structure. Service standards and product innovation will be enhanced and the liabilities business will be expanded. While accelerating the business restructuring, the Bank will closely monitor the risk exposure associated with the implicit liabilities of local governments, material credit loans, real estate and consumer finance and zombie enterprises in compliance with the tightening regulations, and strictly control the operation of shadow banking business and cross-market financial products. The Bank will also actively cope with the challenges from internet financial services and application of big data and adopt management models including business scenario analysis at the frontline office, risk grading and control at the middle office and risk alert based on data at the back office.

## VI. Material changes in major assets

For details regarding the changes in major assets of the Bank, please see "Discussion and Analysis of Operation – Analysis of balance sheet".



## Discussion and Analysis of Operation

Operation Summary

Major Operational Performance during the Reporting Period

Off-balance sheet items that may materially affect financial situation and operating results

Business Overview

Performance and profitability of wealth management business, asset securitisation, custody, trust and financial planning business during the reporting period

Development of new businesses during the reporting period

Risks and risk management

Related-Party Transactions





## I. Operation Summary

In 2017, the Bank proactively adapted to the change in regulatory policies and external operating environment to support the development of real economy. As a part of its strategy of becoming a "boutique bank", the Bank accelerated the transformation of retail banking and established the features of "four banking businesses" based on its strategic positioning and development objectives. The Bank also fostered its competitive strengths of the core business of corporate banking, and refined online direct banking system to strengthen its ability to acquire customers online. The standard of professional operation was enhanced with more solidified risk management system and higher operating efficiency in risk management. During the reporting period, total assets maintained steady growth. The business structure was further optimised and the percentage of deposits and loans in assets and liabilities increased. Quality of asset and operating efficiency continued to improve rapidly.

### (I) Profit growth was satisfactory and operating income improved

During the reporting period, the Group's net profit attributable to the shareholders of the Bank amounted to RMB15.328 billion, representing an increase of 7.13% as compared with the previous year. As at the end of the reporting period, net assets attributable to the shareholders of the Bank amounted to RMB146.985 billion, representing an increase of RMB31.216 billion as compared with the end of the previous year. Basic earnings per share was RMB1.96, average of return on assets was 0.86% and weighted average of return on net assets was 12.63%.

During the reporting period, operating income of the Group

amounted to RMB33.125 billion, representing a decrease of RMB1.279 billion as compared with the previous year, which was due to the combined effects of decrease in interbank business volume, increase of market interest rate and replacement of the business tax with value-added tax in the first half of the year. Nonetheless, following the expansion of business scale and optimisation of business structure, operating income RMB2.338 billion to RMB17.731 billion in the second half of the year, representing an increase of 15.19% as compared with the corresponding period of the previous year. On the other hand, the change in operating income during the report period was also due to the effects of non-comparable factors such as taxation. Without taking into account of such non-comparable factors, the operating income recorded an increase of 3.77% as compared with the previous year.

### (II) Business scale expanded steadily with further optimised business structure

As at the end of the reporting period, total assets of the Group amounted to RMB1,807.767 billion, representing an increase of 2.98% as compared with the end of the previous year. The balance of deposits from customers amounted to RMB923.585 billion, representing an increase of 8.78% as compared with the end of the previous year. The total loans and advances to customers amounted to RMB664.022 billion, representing an increase of 19.86% as compared with the end of the previous year. In response to the regulatory policies and market change, the Group reduced the scale of interbank business and expanded general deposit and loan business. As at the end of the reporting period, the percentage of deposits from customers in total liabilities was 55.63%, representing an increase of 3.83 percentage points as compared with the end of the previous year. Total loans and advances to

## Discussion and Analysis of Operation

customers accounted for 36.73% of total assets, representing an increase of 5.17 percentage points as compared with the end of the previous year. Assets and liabilities structure was further optimised. In addition, credit structure continued to improve, and individual loans and advances as at the end of reporting period accounted for 26.21% of the total loans, representing an increase of 4.71 percentage points as compared with the end of the previous year.

### **(III) Process of transformation was accelerated with upgraded standard of professional operation**

The Bank exerted greater efforts in the development of core customers and core business to increase their value contribution. In respect of assets, the Bank accelerated the transformation of retail banking and focused on the development of consumer finance business. In particular, the Bank enhanced marketing cooperation with leading institutions in the automobile consumption market, and refined its own product portfolio of consumption loans. The whole business process of retail credit products was also streamlined, which promoted the scale expansion and structural adjustment of retail credit business. As at the end of the reporting period, balance of consumption loans (including credit cards) increased by RMB49.236 billion as compared with the end of the previous year, and its percentage in personal loans increased to 54.06%. In respect of liabilities, the Bank put more efforts in the expansion of core business with focus on developing featured businesses including transaction banking, cross-border banking, investment banking and custody banking to expand customer base and improve customer stickiness. The Bank also participated in the reform of fiscal and taxation system of the government and reform of state-owned enterprises, and built strong competitive strengths in terms of the reform of social protection fund in Shanghai and fund supervision for major projects. As at the end of the reporting period, the balance of corporate deposits of the Bank amounted to RMB651.551 billion, representing an increase of 11.24% as compared with the end of the previous year.

The Bank further reinforced its business strengths and upgraded the standard of professional operation. Firstly, the Bank has striven to become an expert of wealth management and pension finance services for urban residents through innovation of business models and products in order to consolidate customer base and increase overall contribution. As at the end of the reporting period, the Bank had 12,917.9 thousand retail customers, representing an increase of 8.38% as compared with the end of the previous year. Asset under management ("AUM") of individual customers amounted to RMB429.803 billion, representing an increase of 8.34% as compared with the end of the previous year. Secondly, the Bank grasped the business opportunities arising from the upgrade of industrial structure and urbanisation development in districts where it operated and took the initiative to develop technology and innovation finance and supply-chain finance business. As at the end of the reporting period, outstanding loans for technology and innovation financing and loans to the supply-chain finance amounted to RMB47.762 billion and RMB 22.150 billion, representing an increase of 13.92% and 28.85% as compared with the end of the previous year, respectively. Thirdly, the Bank enhanced its capability to acquire customers via the internet to break through the physical barrier of branches in

order to serve customers nationwide. Capitalising on its internet technology and online account system, the Bank offered innovative services in respect of payment, settlement, wealth management and credit and cooperated with internet platform enterprises. The customer acquisition efficiency for internet finance business was significant. As at the end of the reporting period, the Bank had 12,865.7 thousand online individual customers, representing an increase of 83.19% as compared with the end of the previous year. Balance of online consumption loan amounted to RMB29.797 billion, representing an increase of 124.64% as compared with the end of the previous year. Online sales of wealth management products amounted to RMB17.351 billion, representing an increase of 726.24% as compared with the previous year.

### **(IV) Asset quality continued to improve and provision coverage level continued to increase**

During the reporting period, the Group further refined its comprehensive risk management system by streamlining the procedure and credit approval system. The Bank also enhanced the management of automatic withdrawal system and risk alert, and strengthened collection and disposal of non-performing assets. Risk control and risk operation capabilities were improved. Risk cost was 0.56%, representing a decrease of 0.07 percentage point as compared with the previous year. As at the end of the reporting period, non-performing loan ratio of the Group was 1.15%, representing a decrease of 0.02 percentage point as compared with the end of the previous year. Non-performing ratio of loans overdue was 0.91, representing a decrease of 0.20 percentage point as compared with the end of the previous year. Non-performing ratio of loans overdue for more than 90 days was 0.70, representing a decrease of 0.18 percentage point as compared with the end of the previous year. Allowance to non-performing loans was 272.52%, representing an increase of 17.02 percentage points as compared with the end of the previous year. Allowance to total loans ratio was 3.14%, representing an increase of 0.14 percentage point as compared with the end of the previous year. Asset quality and provision coverage level continued to improve, maintaining a leading position among banks.

### **(V) Capital replenishment was in smooth progress and capital strength was further consolidated**

The Group has actively replenished its capital with more diversified replenishment channels to consolidate the capital strength. During the reporting period, the Bank completed the non-public issuance of preference shares amounting to RMB20.0 billion to optimise its capital structure and replenish other tier-1 capital, providing support for future business development. As at the end of the reporting period, the capital adequacy ratio of the Group was 14.33%, representing an increase of 1.16 percentage points as compared with the end of the previous year. The tier-1 capital adequacy ratio was 12.37%, representing an increase of 1.24 percentage points as compared with the end of the previous year. The core tier-1 capital adequacy ratio was 10.69%, representing a decrease of 0.44 percentage point as compared with the end of the previous year.

## II. Major Operational Performance during the Reporting Period

### (I) Analysis of income statement

During the reporting period, net profit of the Group amounted to RMB15.337 billion, representing an increase of 7.06% as compared with the previous year. The table below sets out the change in major items of the income statement.

Unit: RMB'000

Item	2017	2016	Change
Net interest income	19,117,309	25,998,109	-26.47%
Net non-interest income	14,007,686	8,405,408	66.65%
Operating income	33,124,995	34,403,517	-3.72%
Less: operating expenses	17,139,272	18,195,608	-5.81%
Including: Taxes and surcharges	343,679	714,649	-51.91%
General and administrative expenses	8,105,358	7,875,911	2.91%
Impairment losses on assets	8,671,315	9,576,344	-9.45%
Other operating expenses	18,920	28,704	-34.09%
Operating profit	15,985,723	16,207,909	-1.37%
Add: Net operating income and expense	96,739	111,464	-13.21%
Profit before tax	16,082,462	16,319,373	-1.45%
Less: Income tax expenses	745,669	1,994,309	-62.61%
Net profit	15,336,793	14,325,064	7.06%
Including: Net profit attributable to the shareholders of the Bank	15,328,499	14,308,265	7.13%
Minority interests	8,294	16,799	-50.63%

### 1. Net interest income

#### (1) Average yield on interest-earning assets and average cost of interest-bearing liabilities

The table below sets out the average balance of assets and liabilities item, interest income/ interest expenses and the average yield/ cost. The average balances of interest-earning assets and interest-bearing liabilities are on daily basis.

Unit: RMB'000

Item	2017			2016		
	Average balance	Interest income	Average yield	Average balance	Interest income	Average yield
<b>Assets</b>						
Loans and advances to customers	591,223,588	26,538,366	4.49%	539,186,934	24,165,281	4.48%
Investment in debt instruments	648,792,245	26,273,058	4.05%	674,449,737	30,078,807	4.46%
Deposits with central bank	135,851,409	2,028,931	1.49%	139,003,484	2,055,481	1.48%
Deposits with banks and other financial institutions	125,503,475	4,239,410	3.38%	112,960,583	3,338,519	2.96%
Financial assets held under resale agreement	30,349,194	889,683	2.93%	36,833,233	862,428	2.34%
Others	-	112,837	-	-	151,415	-
<b>Total interest-earning assets</b>	<b>1,531,719,911</b>	<b>60,082,285</b>	<b>3.92%</b>	<b>1,502,433,971</b>	<b>60,651,931</b>	<b>4.04%</b>

## Discussion and Analysis of Operation

Item	2017			2016		
	Average balance	Interest expense	Average cost rate	Average balance	Interest expense	Average cost rate
<b>Liabilities</b>						
Deposits from customers	869,236,382	16,198,350	1.86%	824,031,378	16,135,278	1.96%
Deposits and placements from banks and other financial institutions	356,467,121	10,860,805	3.05%	375,522,063	9,156,026	2.44%
Debt securities issued	213,663,421	8,353,584	3.91%	190,723,756	6,197,430	3.25%
Financial assets sold under repurchase agreements	78,460,287	2,611,742	3.33%	75,902,550	1,898,268	2.50%
Borrowings from central bank	95,943,836	2,935,567	3.06%	38,318,702	1,173,071	3.06%
Others	-	4,928	-	-	93,749	-
<b>Total interest-bearing liabilities</b>	<b>1,613,771,047</b>	<b>40,964,976</b>	<b>2.54%</b>	<b>1,504,498,449</b>	<b>34,653,822</b>	<b>2.30%</b>
<b>Net interest income</b>	<b>-</b>	<b>19,117,309</b>	<b>-</b>	<b>-</b>	<b>25,998,109</b>	<b>-</b>
<b>Net interest spread</b>	<b>-</b>	<b>-</b>	<b>1.38%</b>	<b>-</b>	<b>-</b>	<b>1.74%</b>
<b>Net interest margin</b>	<b>-</b>	<b>-</b>	<b>1.25%</b>	<b>-</b>	<b>-</b>	<b>1.73%</b>

During the reporting period, the change in net interest margin and net interest spread of the Group was mainly due to the increases of interbank interest rate and interest rate of interest-bearing liabilities. In respect of the change of assets and liabilities structure of the Group, net interest spread for the two years may not be comparable due to the non-taxable nature and accounting factors on the return of assets.

Since the second half of 2016, the Bank continued to increase the proportion of investment in treasury bonds and funds. However, the non-taxable nature of these assets as well as the gain on investment in funds have not been reflected in interest income. In addition, due to the replacement of the business tax with value-added tax from May 2016, the method of tax accounting was different for four months in 2017 when comparing with 2016, which resulted in a decrease of nominal net interest spread. Without taking into account of the aforementioned factors, the net interest spread of the Group in 2017 was 1.87%, representing a decrease of 2 basis points as compared with the previous year. Despite the increase in the cost of interest-bearing liabilities, the gain on interest-earning assets increased as a result of the adjustment in asset structure and strengthened pricing management, and the net interest spread, excluding the effects from the above factors, remained relatively stable.

### (2) Analysis of change in interest income and expenses

The table below sets out the change in interest income and interest expenses due to changes of volume and interest rate. The change of volume refers to the change in daily average balance, and the change of interest rate refers to the change in average interest rate. Changes in interest income and expenses due to the changes of volume and interest rate are accounted for as the impact of change of volume on interest income and expenses.

Unit: RMB'000

Item	Impact of change of volume	Impact of change of interest rate	Changes in interest income and expenses
<b>Assets</b>			
Loans and advances to customers	2,332,179	40,906	2,373,085
Investment in debt instruments	-1,144,261	-2,661,488	-3,805,749
Deposits with central bank	-46,611	20,061	-26,550
Deposits with banks and other financial institutions	370,702	530,189	900,891
Financial assets held under resale agreement	-151,820	179,075	27,255
Others	-	-	-38,578
<b>Changes in interest income</b>	<b>1,360,189</b>	<b>-1,891,257</b>	<b>-569,646</b>

## Discussion and Analysis of Operation

Item	Impact of change of volume	Impact of change of interest rate	Changes in interest income and expenses
<b>Liabilities</b>			
Deposits from customers	885,155	-822,083	63,072
Deposits and placements from banks and other financial institutions	-464,600	2,169,379	1,704,779
Debt securities issued	745,408	1,410,746	2,156,154
Financial assets sold under repurchase agreements	63,967	649,507	713,474
Borrowings from central bank	1,764,109	-1,613	1,762,496
Others	-	-	-88,821
<b>Changes in interest expense</b>	<b>2,994,039</b>	<b>3,405,936</b>	<b>6,311,154</b>
<b>Changes in net interest income</b>	<b>-1,633,850</b>	<b>-5,297,193</b>	<b>-6,880,800</b>

### (3) Interest expenses on deposits from customers and interest income from loans and advances to customers

The table below sets out the average balance of each item of the deposits from customers and the loans and advances to customers of the Group, and the average cost or average yield.

Unit: RMB'000

Type	2017		2016	
	Average balance	Average interest rate	Average balance	Average interest rate
Corporate demand deposits	296,475,727	0.67%	264,371,424	0.71%
Corporate time deposits	303,250,297	2.80%	302,097,992	2.81%
Pledged deposits	64,176,135	1.89%	57,812,019	1.63%
Individual demand deposits	58,424,841	0.30%	53,062,505	0.30%
Individual time deposits	146,909,382	2.96%	146,687,438	3.18%
<b>Total deposits from customers</b>	<b>869,236,382</b>	<b>1.86%</b>	<b>824,031,378</b>	<b>1.96%</b>
Corporate loans and advances	408,320,976	4.35%	344,149,232	4.56%
Individual loans and advances <sup>Note</sup>	128,640,553	5.33%	97,032,609	5.25%
Discounted bills	54,262,060	3.54%	98,005,092	3.46%
<b>Total loans and advances to customers</b>	<b>591,223,588</b>	<b>4.49%</b>	<b>539,186,934</b>	<b>4.48%</b>

Note: In calculating the average yield of individual loans and advances, personal credit card installment is adjusted to non-interest-earning assets based on the principle of matching returns with assets. Same adjustment has been made to figures of 2016.

During the reporting period, average cost of deposits from customers further improved, decreasing by 10 basis points as compared with the previous year to 1.86%. The decrease was mainly due to improvement in deposit structure with higher percentage of demand deposits, and the re-pricing of certain long-term time deposits.

During the reporting period, the average yield on loans was 4.49%, representing an increase of one basis point as compared with the previous year. Due to the impact of replacement of the business tax with value-added tax (business tax was charged for the first four months of 2016), average yield of loans in 2017 is not comparable to those of 2016. Without taking into account of the different taxation method, the average yield of loans during the reporting period increased by 10 basis points as compared with the previous year, mainly due to the optimisation of credit structure and increase in price.



# Discussion and Analysis of Operation

## 2. Net non-interest income

### (1) Net fee and commission income

During the reporting period, the net fee and commission income of the Group amounted to RMB6.256 billion, representing an increase of 1.61% as compared with the previous year. The increase was mainly due to progress of business transformation and expansion of businesses including bank card and electronic banking, resulting in faster growth in fee income. On the other hand, in compliance with the national macro policies and regulatory requirements, the Bank actively adjusted business structure by reducing fees charged on services for the real economy in order to support the development of real economy, resulting in a decrease of advisory service fee income.

Unit: RMB'000

Item	2017	2016	Change
Agency service fees	1,919,918	1,902,481	0.92%
Bank card fees	1,353,300	843,749	60.39%
Custodian and other fiduciary service fees	1,239,868	1,318,316	-5.95%
Advisory service fees	1,183,029	1,562,777	-24.30%
Settlement and clearing fees	170,042	156,871	8.40%
Electronic banking service fees	75,962	44,690	69.98%
Others	843,439	655,425	28.69%
<b>Fee and commission income</b>	<b>6,785,558</b>	<b>6,484,309</b>	<b>4.65%</b>
<b>Fee and commission expense</b>	<b>529,772</b>	<b>327,465</b>	<b>61.78%</b>
<b>Net fee and commission income</b>	<b>6,255,786</b>	<b>6,156,844</b>	<b>1.61%</b>

### (2) Other net non-interest income

During the reporting period, net gain on investment of the Group amounted to RMB9.637 billion, representing an increase of RMB7.988 billion as compared with the previous year. The increase was mainly due to increase in investment of funds. Gains or losses arising from changes in fair value and gains or losses from foreign exchange are highly correlated. The total of the two items decreased by RMB2.544 billion, mainly due to revaluation of placement business of derivative financial instruments and precious metals.

Unit: RMB'000

Item	2017	2016	Change
Net gain on investment	9,636,523	1,648,500	7,988,023
Net gain/(loss) from changes in fair value	-5,569,912	2,119,075	-7,688,987
Net foreign exchange gain/(loss)	3,535,189	-1,609,515	5,144,704
Other operating income	111,090	95,800	15,290

## 3. Operating expenses

### (1) General and administrative expenses

During the reporting period, general and administrative expenses of the Group amounted to RMB8.105 billion, representing an increase of 2.91% as compared with the previous year. The increase was mainly due to the increase in human resources costs and office and administrative expenses. The cost-to-income ratio was 24.47%, representing an increase of 1.58 percentage points as compared with the previous year.

Unit: RMB'000

Item	2017	2016	Change
Human resource costs	4,945,653	4,770,767	3.67%
Premises and equipment expenses	1,553,386	1,602,154	-3.04%
Other office and administrative expenses	1,606,319	1,502,990	6.87%
<b>General and administrative expenses</b>	<b>8,105,358</b>	<b>7,875,911</b>	<b>2.91%</b>
<b>Cost-to-income ratio</b>	<b>24.47%</b>	<b>22.89%</b>	<b>Increased by 1.58 percentage points</b>



## (2) Impairment losses on assets

During the reporting period, the impairment losses on assets of the Group amounted to RMB8.671 billion, representing a decrease of RMB905 million as compared with the previous year. Impairment losses on different assets are as follows:

Unit: RMB'000

Item	2017	2016
Loans and advances to customers	6,082,971	4,721,745
Investments classified as receivables	2,263,425	4,247,406
Available-for-sale financial assets	145,773	568,777
Financial assets held under resale agreements	135,454	-
Placements with banks and other financial institutions	9,637	9,692
Held-to-maturity investments	1,959	1,637
Other assets	32,096	27,087
<b>Total</b>	<b>8,671,315</b>	<b>9,576,344</b>

## 4. Income tax expense

During the reporting period, the change of income tax expenses of the Group was mainly due to the higher percentage of non-taxable income in the Profit before tax of the Group.

Unit: RMB'000

Item	2017	2016	同比变动
Current income tax	3,967,227	3,925,514	1.06%
Deferred income tax	-2,472,018	-1,018,818	-142.64%
Adjustment to income tax for final settlement	-749,540	-912,387	17.85%
<b>Total</b>	<b>745,669</b>	<b>1,994,309</b>	<b>-62.61%</b>

## (II) Analysis of balance sheet

## 1. Assets

As at the end of the reporting period, the total assets of the Group amounted to RMB1,807.767 billion, representing an increase of RMB52.396 billion, or 2.98%, as compared with the end of the previous year.

Unit: RMB'000

Item	31 December 2017		31 December 2016	
	Amount	Percentage of total	Amount	Percentage of total
Total loans and advances to customers	664,021,617	36.73%	553,999,300	31.56%
Less: provision for doubtful debts	-20,830,293	-1.15%	-16,602,775	-0.95%
<b>Net loans and advances to customers</b>	<b>643,191,324</b>	<b>35.58%</b>	<b>537,396,525</b>	<b>30.61%</b>
Investment assets <sup>1</sup>	833,203,304	46.09%	916,155,109	52.19%
Cash and deposits with central bank	136,063,645	7.53%	137,037,351	7.81%
Deposits and placement with banks and other financial institutions (including financial assets held under resale agreements)	161,775,396	8.95%	134,927,807	7.69%
Interest receivable	7,680,426	0.42%	7,354,580	0.42%
Long-term equity investments	395,131	0.02%	18,423	0.00%
Others <sup>2</sup>	25,457,712	1.41%	22,481,307	1.28%
<b>Total Assets</b>	<b>1,807,766,938</b>	<b>100.00%</b>	<b>1,755,371,102</b>	<b>100.00%</b>

Notes: 1. Including financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables;

2. Including derivative financial assets, fixed assets, intangible assets, deferred income tax assets and other assets.

## Discussion and Analysis of Operation

### (1) Loans and advances to customers

Unit: RMB'000

Item	31 December 2017		31 December 2016		31 December 2015	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Corporate loans and advances	446,591,730	67.26%	359,625,050	64.91%	344,620,278	64.23%
Individual loans and advances	174,051,049	26.21%	119,098,293	21.50%	86,486,385	16.12%
Discounted bills	43,378,838	6.53%	75,275,957	13.59%	105,400,963	19.65%
<b>Total loans and advances</b>	<b>664,021,617</b>	<b>100.00%</b>	<b>553,999,300</b>	<b>100.00%</b>	<b>536,507,626</b>	<b>100.00%</b>

#### (1.1) Loans to the top 10 customers

The Bank strengthened its standardised credit approval management so as to manage customer concentration. As at the end of the reporting period, the total loan balance of top 10 loan customers amounted to RMB47.575 billion, accounting for 7.16% of the total loan and advances to customers of the Group. The loan balance of the largest customer amounted to RMB8.380 billion, accounting for 1.26% of the total loans and advances to customers of the Group.

Unit: RMB'000

Name of customer	31 December 2017	Percentage
Customer A	8,380,000	1.26%
Customer B	7,797,734	1.17%
Customer C	6,174,397	0.93%
Customer D	5,207,200	0.78%
Customer E	4,950,095	0.75%
Customer F	3,333,000	0.50%
Customer G	3,000,000	0.45%
Customer H	3,000,000	0.45%
Customer I	2,932,720	0.44%
Customer J	2,800,000	0.42%
<b>Total</b>	<b>47,575,145</b>	<b>7.16%</b>

Note: Difference between the sums of the amounts and the totals is due to rounding of decimal place.

#### (1.2) Individual loan composition

As at the end of reporting period, the total amount of individual loans of the Group amounted to RMB174.051 billion, representing an increase of 46.14% as compared with the end of the previous year. The percentage of individual consumption loans to total loans increased while that of property mortgages and personal business loans decreased as compared with the end of the previous year. The percentage of credit card loans was basically the same as that of the end of the previous year.

Unit: RMB'000

Type	31 December 2017		31 December 2016	
	Loan balance	Percentage	Loan balance	Percentage
Individual consumption loans	69,253,364	39.79%	27,666,884	23.23%
Property mortgages	64,532,841	37.08%	54,732,624	45.96%
Personal business loans	15,422,125	8.86%	19,506,011	16.38%
Credit cards	24,842,719	14.27%	17,192,774	14.44%
<b>Total</b>	<b>174,051,049</b>	<b>100.00%</b>	<b>119,098,293</b>	<b>100.00%</b>

Note: Difference between the sums of the amounts and the totals is due to rounding of decimal place.

## (2) Investment

As at the end of the reporting period, the total investment assets of the Group amounted to RMB833.203 billion, representing a decrease of RMB82.952 billion, or 9.05%, as compared with the end of the previous year. The percentage of investments classified as receivables decreased as the Bank reduced interbank investment.

Unit: RMB'000

Type	31 December 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Financial assets at fair value through profit or loss	11,554,237	1.39%	7,145,338	0.78%
Available-for-sale financial assets	420,684,813	50.49%	432,146,185	47.17%
Held-to-maturity financial assets	264,262,868	31.71%	236,540,182	25.82%
Investments classified as receivables	136,701,386	16.41%	240,323,404	26.23%
<b>Total investment assets</b>	<b>833,203,304</b>	<b>100.00%</b>	<b>916,155,109</b>	<b>100.00%</b>

The composition of investment assets by nature of financial assets was as follows:

Unit: RMB'000

Type	31 December 2017	31 December 2016
Bond Investment	622,628,143	771,880,240
Equity Instrument	210,575,161	144,274,869
<b>Total investment assets</b>	<b>833,203,304</b>	<b>916,155,109</b>

### (2.1) Financial assets at fair value through profit or loss

Unit: RMB'000

Item	31 December 2016	Gains or losses arising from changes in fair value for the period	Changes in fair value reported in equity	Impairment made for the period	31 December 2017
Financial assets at fair value through profit or loss	7,145,338	-66,449	-	-	11,554,237
Available-for-sale financial assets	432,146,185	-	788,802	-145,773	420,684,813
Derivative financial assets	1,361,893	-5,183,248	-	-	839,088
Derivative financial liabilities	1,520,235	-	-	-	1,359,342
Financial liabilities at fair value through profit or loss	307,656	446	-	-	-

Note: The data are not necessarily co-related.

### (2.2) Available-for-sale financial assets, held-to-maturity financial assets and investments classified as receivables

As at the end of the reporting period, net available-for-sale financial assets of the Group amounted to RMB420.685 billion, representing a decrease of 2.65% as compared with the end of the previous year. Net held-to-maturity investment amounted to RMB264.263 billion, representing an increase of 11.72% as compared with the end of the previous year. Net investments classified as receivables amounted to RMB136.701 billion, representing a decrease of 43.12% as compared with the end of the previous year. For details of available-for-sale financial assets, held-to-maturity financial assets and investments classified as receivables, please refer to Notes V 9, 10 and 11 to the financial statements.

## Discussion and Analysis of Operation

### (2.3) Financial bonds held

The composition of the Group's total bond investments classified by the issuing entities is as follows:

Unit: RMB'000

Type	Amount
Bonds issued by policy banks	28,081,368.00
Bonds issued by commercial banks	9,078,238.68
Bonds issued by non-bank financial institutions	9,196,739.28

The top 10 financial bonds with the greatest nominal value are as follows:

Unit: RMB'000

Name of the bonds	Nominal value	Annual interest rate	Maturity date	Provision for impairment loss
2016 policy bank bonds	5,040,000.00	2.96%	2021-7-27	-
2016 policy bank bonds	2,620,000.00	2.96%	2021-2-18	-
2016 policy bank bonds	2,140,000.00	2.92%	2021-11-1	-
2014 policy bank bonds	1,870,000.00	4.77%	2021-6-9	-
2016 non-bank financial institutions bonds	1,822,520.00	3.25%	2021-11-29	-
2016 policy bank bonds	1,670,000.00	3.10%	2021-3-11	-
2014 non-bank financial institutions bonds	1,000,000.00	5.30%	2019-10-17	-
2016 policy bank bonds	900,000.00	3.54%	2023-4-22	-
2014 policy bank bonds	890,000.00	5.79%	2021-1-14	-
2014 policy bank bonds	830,000.00	4.85%	2021-5-13	-

### (3) Financial assets held under resale agreements

As at the end of the reporting period, the Group's financial assets held under resale agreements amounted to RMB25.809 billion, representing an increase of RMB6.552 billion, or 34.02%, as compared with the end of the previous year. The increase was mainly due to the increase of bank certificate of deposit purchased under resale agreement.

Unit: RMB'000

Item	31 December 2017		31 December 2016	
	Balance	Percentage	Balance	Percentage
Bonds	12,162,806	47.13%	12,153,257	63.11%
Bank certificate of deposit	13,781,499	53.40%	6,703,910	34.81%
Receivables	-	0.00%	400,000	2.08%
Less: impairment provision	-135,454	-0.53%	-	0.00%
<b>Total</b>	<b>25,808,851</b>	<b>100.00%</b>	<b>19,257,167</b>	<b>100.00%</b>

### (4) Equity Investment

#### (4.1) Investment in associated companies

Investment in associated companies represents investment in Shanghai ShangCheng Consumer Finance Corporation Limited, Shenzhen Yushi Supply Chain Technology Services Company Limited and Shanghai ShangKang Yinchuang Investment Management Co., Ltd. As at the end of the reporting period, net book value of investment in associated companies amounted to RMB395 million.

## (4.2) Other equity investments

Unit: RMB'000

Investee	Investment cost	Shareholding percentage	Carrying value as at the end of the period	Gain for the period	Accounting item
Shenlian International Investment Company	288,044	16.50%	574,871	28,835	Available-for-sale financial assets
China UnionPay Co., Ltd.	63,727	1.71%	63,727	4,000	Available-for-sale financial assets
Clearing Center for City Commercial Banks	600	1.94%	600	-	Available-for-sale financial assets
China Everbright Bank Co., Ltd.	18,000	0.04%	68,607	1,660	Available-for-sale financial assets
<b>Total</b>	<b>370,371</b>	<b>-</b>	<b>707,806</b>	<b>34,495</b>	<b>-</b>

## (4.3) Analysis of major subsidiaries

## (4.3.1) Rural banks

As at the end of the reporting period, the aggregate registered capital of the four rural banks established by the Bank amounted to RMB658 million, of which the Bank's contribution accounted for RMB335 million. The total assets, deposits and loans of the four rural banks amounted to RMB4,048 million, RMB3,102 million and RMB2,474 million, respectively. During the reporting period, the net profit amounted to RMB-430,000. The net profit of Shanghai Minhang BoS Rural Bank Co., Ltd., Zhejiang Quzhou Qujiang BoS Rural Bank Co., Ltd., Jiangsu Jiangning BoS Rural Bank Co., Ltd. and Chongzhou BoS Rural Bank Co., Ltd. amounted to RMB28.80 million, RMB-37.32 million, RMB4.41 million and RMB3.68 million, respectively.

During the reporting period, adhering to the principle of prudent and healthy operation and distinguished development, our rural banks put efforts in innovating financial products and services according to the regional economic characteristics and needs of customers based on the market position of serving "Three Agricultures", small and micro enterprises and communities. Our rural banks achieved satisfactory results in supporting rural area and small enterprises and their operating performance further improved.

## (4.3.2) Bank of Shanghai (Hong Kong) Limited and BOSC International Company Limited

Bank of Shanghai (Hong Kong) Limited, a wholly-owned subsidiary of the Bank and the first overseas institution of the Group, commenced operation officially in June 2013. By leveraging on the system and resource advantages of Hong Kong as an international finance centre, Bank of Shanghai (Hong Kong) Limited makes the most of the synergies of the Group to provide high-quality cross-border comprehensive financial services for domestic enterprises which seek business opportunities overseas and local enterprises in Hong Kong. As at the end of the reporting period, the total assets, deposits and loans of Bank of Shanghai (Hong Kong) Limited amounted to HKD25,777 million, HKD13,628 million and HKD15,063 million, respectively. During the reporting period, net profit amounted to HKD221 million.

BOSC International Company Limited, a wholly-owned subsidiary established by Bank of Shanghai (Hong Kong) Limited in Hong Kong, commenced operation officially in January 2015. BOSC International Company Limited has been approved to engage in core licensed business activities of investment banks, namely Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management). During the reporting period, Bank of Shanghai (Hong Kong) Limited injected capital of HKD690 million into BOSC International Company Limited. Upon the capital injection, the registered capital of BOSC International Company Limited was HKD780 million. As an overseas investment banking platform of the Group, BOSC International Company Limited provides strong support to the cross border financing business of the Group. As at the end of the reporting period, the total assets of BOSC International Company Limited amounted to HKD1,686 million. During the reporting period, net profit amounted to HKD59.19 million.

(Note: The financial data of Bank of Shanghai (Hong Kong) and BOSC International are prepared on a consolidated basis and unaudited.)

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### (4.3.3) BOSC Asset Management Limited

BOSC Asset Management Limited was established in 2013 with a registered capital of RMB300 million. The Bank was its largest shareholder, holding 90% of its shares with an initial investment of RMB270 million. During the reporting period, BOSC Asset Management Limited strictly implemented its operation strategies and put great effort in developing public offering business. With its sound operation and lawful development, BOSC Asset Management Limited recorded satisfactory results in terms of profit. As at the end of the reporting period, the total assets, net assets and assets under management of BOSC Asset Management Limited amounted to RMB1,490 million, RMB966 million and RMB158.863 billion, respectively. It also recorded net profit of RMB105 million during the reporting period.

### (4.3.4) Shanghai ShangCheng Consumer Finance Corporation Limited

Shanghai ShangCheng Consumer Finance Corporation Limited was established in August 2017 with a registered capital of RMB1,000 million. The Bank holds 38.00% of its shares with an investment of RMB380 million. Since its commencement of operation, Shanghai ShangCheng Consumer Finance Corporation Limited has adhered to the principle of innovative, sound, effective and quality operation. With an aim to position itself as an innovative and leading financial institution with high recognition which is able to meet customers' needs and bear social responsibility, Shanghai ShangCheng Consumer Finance Corporation Limited focuses on providing inclusive financial services and developing financial services for business trips. As at the end of the reporting period, the total assets and net assets of Shanghai ShangCheng Consumer Finance Corporation Limited amounted to RMB990 million and RMB986 million, respectively. The balance of loans amounted to RMB407 million. During the reporting period, the net profit of Shanghai ShangCheng Consumer Finance Corporation Limited amounted to RMB-13 million. The net deficit was mainly due to the unrealised revenue as a large proportion of loans was granted in December 2017, and increase in expenses as development of system at the early stage of operation required a large amount of investment.

### (4.4) Structured entities controlled by the Bank

For information on the structured entities consolidated into the Group and the structured entities which are managed by the Group, or in which the Group has equity interest, but has not been consolidated into the Group, see Note VI to the financial statements.

### (5) Interests receivable

As at the end of the reporting period, the balance of the interests receivable of the Group amounted to RMB7,680 million, representing an increase of RMB326 million, or 4.43%, as compared with the end of the previous year.

Unit: RMB'000

Type	31 December 2017	Addition during the period	Recovery during the period	31 December 2016
Interests receivable	7,680,426	60,082,285	59,756,439	7,354,580

## 2. Liabilities

As at the end of the reporting period, the total liabilities of the Group amounted to RMB1,660,326 million, representing an increase of RMB21,173 million, or 1.29%, as compared with the end of the previous year.

Unit: RMB'000

Item	31 December 2017		31 December 2016	
	Amount	Percentage	Amount	Percentage
Deposits from customers	923,585,324	55.63%	849,073,364	51.80%
Deposits and placements from banks and other financial institutions (including financial assets sold under repurchase agreements)	459,028,526	27.65%	422,738,155	25.79%
Debt securities issued	168,148,078	10.12%	231,080,385	14.10%
Others <sup>Note</sup>	109,563,607	6.60%	136,260,584	8.31%
<b>Total liabilities</b>	<b>1,660,325,535</b>	<b>100.00%</b>	<b>1,639,152,488</b>	<b>100.00%</b>

Note: Including borrowings from central bank, financial liabilities at fair value through profit or loss, derivative financial liabilities, employee benefits payable, taxes payable, interests payable, deferred tax liabilities and other liabilities.

## Discussion and Analysis of Operation

### (1) Deposits from customers

As at the end of the reporting period, the total deposits from customers of the Bank amounted to RMB923,585 million, representing an increase of RMB74,512 million, or 8.78%, as compared with the end of the previous year.

Unit: RMB'000

Item	31 December 2017		31 December 2016		31 December 2015	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
<b>Corporate deposits</b>	<b>651,550,674</b>	<b>70.55%</b>	<b>585,708,978</b>	<b>68.98%</b>	<b>547,406,218</b>	<b>69.05%</b>
Demand deposits	323,092,112	34.98%	298,863,842	35.20%	252,422,614	31.84%
Time deposits	328,458,562	35.57%	286,845,136	33.78%	294,983,604	37.21%
<b>Individual deposits</b>	<b>205,267,648</b>	<b>22.22%</b>	<b>204,770,014</b>	<b>24.12%</b>	<b>190,132,945</b>	<b>23.99%</b>
Demand deposits	58,390,833	6.32%	55,967,453	6.59%	48,099,610	6.07%
Time deposits	146,876,815	15.90%	148,802,561	17.53%	142,033,335	17.92%
<b>Pledged deposits</b>	<b>66,767,002</b>	<b>7.23%</b>	<b>58,594,372</b>	<b>6.90%</b>	<b>55,140,723</b>	<b>6.96%</b>
<b>Total deposits from customers</b>	<b>923,585,324</b>	<b>100.00%</b>	<b>849,073,364</b>	<b>100.00%</b>	<b>792,679,886</b>	<b>100.00%</b>

### (2) Deposits from banks and other financial institutions

Unit: RMB'000

Counterparty	31 December 2017		31 December 2016	
	Balance	Percentage of total	Balance	Percentage of total
<b>Mainland China</b>	<b>297,603,093</b>	<b>90.55%</b>	<b>281,936,854</b>	<b>99.97%</b>
Banks	85,890,216	26.13%	75,756,343	26.86%
Other financial institutions	211,712,877	64.42%	206,180,511	73.11%
<b>Outside mainland China</b>	<b>31,051,168</b>	<b>9.45%</b>	<b>78,881</b>	<b>0.03%</b>
Bank <sup>Note</sup>	31,051,168	9.45%	78,881	0.03%
<b>Total</b>	<b>328,654,261</b>	<b>100.00%</b>	<b>282,015,735</b>	<b>100.00%</b>

Note: During the reporting period, the significant increase in the scale and percentage was mainly due to the substantial expansion in deposits from banks outside mainland China with an aim to reduce capital cost.

### (3) Financial assets sold under repurchase agreements

Unit: RMB'000

Type	31 December 2017		31 December 2016	
	Balance	Percentage of total	Balance	Percentage of total
Bonds	45,800,000	58.29%	46,480,000	50.88%
Bills	32,559,419	41.44%	44,657,791	48.89%
Other financial assets business	213,750	0.27%	213,750	0.23%
<b>Total</b>	<b>78,573,169</b>	<b>100.00%</b>	<b>91,351,541</b>	<b>100.00%</b>



## Discussion and Analysis of Operation

### (4) Interests payable

Unit: RMB'000

Type	31 December 2017	31 December 2016
Interests payable	16,570,559	15,849,413

### 3. Equity of shareholders

As at the end of the reporting period, the equity of shareholders of the Group amounted to RMB147,441 million, representing an increase of RMB31,223 million, or 26.87%, as compared with the end of the previous year, mainly due to the increase in the proceeds from the private placement of preference shares and the profit growth.

Unit: RMB'000

Item	31 December 2017	31 December 2016	Change
Share capital	7,805,785	6,004,450	30.00%
Other equity instruments	19,957,170	-	N/A
Capital reserve	28,452,203	30,253,538	-5.95%
Other comprehensive income	-571,337	496,194	-215.14%
Surplus reserve	26,435,300	22,227,344	18.93%
General reserve	25,780,256	21,245,093	21.35%
Retained earnings	39,125,759	35,542,604	10.08%
Total equity attributable to shareholders of the Bank	146,985,136	115,769,223	26.96%
Non-controlling interest	456,267	449,391	1.53%
<b>Total shareholders' equity</b>	<b>147,441,403</b>	<b>116,218,614</b>	<b>26.87%</b>

### (III) Analysis of Cash Flow Statement

During the reporting period, net cash flow from operational activities of the Group was RMB-60,767 million, representing a decrease of RMB231,613 million, as compared with the previous year. The decrease was mainly due to the decrease in borrowings from central bank and the increase in loans and advances to customers.

Net cash flow from investing activities was RMB118,423 million, representing an increase of RMB419,264 million as compared with the previous year. The increase was mainly due to the decrease in cash payment for investment.

Net cash flow from financing activities was RMB-55,993 million, representing a decrease of RMB167,375 million as compared with the previous year. The decrease was mainly due to the increase in cash repayment for debt securities.

**(IV) Items with Change of More than 30% in the Comparable Accounting Statement and the Reasons**

Unit: RMB'000

Item	2017	2016	Changes as compared with the end of the previous year/the previous year	Major reason of change
Deposit with banks and other financial institutions	38,788,136	17,931,224	116.32%	Increase in deposits with banks in mainland China
Financial assets at fair value through profit or loss	11,554,237	7,145,338	61.70%	Increase in debt instruments held for trading
Derivative financial assets	839,088	1,361,893	-38.39%	Decrease in derivative financial assets such as currency swap
Financial assets held under resale agreements	25,808,851	19,257,167	34.02%	Increase in bank certificate of deposit under resale agreements
Investments classified as receivables	136,701,386	240,323,404	-43.12%	Decrease in investment in asset management plan
Long-term equity investments	395,131	18,423	2044.77%	Increase in investment in associates
Deferred income tax assets	7,783,439	5,032,889	54.65%	Increase in deferred income tax assets due to the changes in fair value and provision for impairment of assets
Financial liabilities at fair value through profit or loss	-	307,656	-100.00%	Decrease in business scale of precious metal and short selling of bonds
Taxes payable	4,144,141	2,103,423	97.02%	Increase in enterprise income tax and value-added tax
Deferred tax liabilities	55,741	40,284	38.37%	Increase in deferred tax liabilities due to the changes in fair value
Share capital	7,805,785	6,004,450	30.00%	Capitalisation of capital reserve
Other equity instruments	19,957,170	-	100.00%	Private placement of preference shares
Other comprehensive income	-571,337	496,194	-215.14%	Decrease in valuation of available-for-sale financial assets
Fee and commission expense	529,772	327,465	61.78%	Increase in bank card charges and agency expenses
Net gain on investment	9,636,523	1,648,500	484.56%	Increase in gains from fund investment
Net (losses)/gains from changes in fair value	-5,569,912	2,119,075	-362.85%	These two items are highly related. The total amount of these two items decreased by RMB2,544 million as compared with the previous year. The decrease was mainly due to the changes in valuation of derivative financial instruments and the precious metal business
Net foreign exchange gains/(losses)	3,535,189	-1,609,515	N/A	
Gains/(losses) from disposal of assets	9,905	-5,296	N/A	Increase in gains from disposal of assets
Other gains	29,105	-	100.00%	The Bank included this item in the statement for the year in accordance with the standards in relation to government subsidy. The statement for the previous year will not be adjusted retrospectively
Tax and surcharges	343,679	714,649	-51.91%	Influence of the replacement of business taxes by value-added taxes
Other operating expenses	18,920	28,704	-34.09%	Increase in expenses incurred on postage and telecommunications and e-remittance
Non-operating income	122,727	181,290	-32.30%	Decrease in liquidated damages and effect of reclassification due to the changes in accounting standards in relation to government subsidy
Non-operating expenses	25,988	69,826	-62.78%	Decrease in donation expenses
Income tax expense	745,669	1,994,309	-62.61%	Increase in proportion of non-taxable income

# Discussion and Analysis of Operation

## (V) Loan Quality Analysis

### 1. Distribution of loans by the five-category classification

As at the end of the reporting period, based on the five-category classification, the balance of non-performing loans of the Group was RMB7,644 million and the non-performing loan ratio was 1.15%, representing a decrease of 0.02 percentage points as compared with the end of the previous year. The balance of special mention loans was RMB13,807 million, accounting for 2.08% of the total loans and representing a decrease of 0.08 percentage points as compared with the end of the previous year. The Group continued to enhance the management of asset quality, mitigate risks and dispose of non-performing loans. Through various measures including real-time monitoring, regular inspections, risk alerts and warning, automatic withdrawal, risk control, flexible asset management, assessments and incentives, the Group balanced asset quality pressure and ensured stable asset quality.

Unit: RMB'000

Item	31 December 2017		31 December 2016		Change as compared with the end of the previous year	31 December 2015	
	Amount	Percentage	Amount	Percentage		Amount	Percentage
Normal	642,570,897	96.77%	535,550,052	96.67%	107,020,845	519,064,764	96.75%
Special mention	13,807,216	2.08%	11,951,195	2.16%	1,856,021	11,072,465	2.06%
Substandard	3,063,912	0.46%	1,532,112	0.28%	1,531,800	1,867,123	0.35%
Doubtful	3,276,530	0.49%	3,711,337	0.67%	-434,807	2,417,490	0.45%
Loss	1,303,062	0.20%	1,254,604	0.23%	48,458	2,085,784	0.39%
<b>Total loans and advances to customers</b>	<b>664,021,617</b>	<b>100.00%</b>	<b>553,999,300</b>	<b>100.00%</b>	<b>110,022,317</b>	<b>536,507,626</b>	<b>100.00%</b>

Note: Difference between the sums of the amounts and the totals is due to rounding of decimal place.

### 2. Distribution of loans and non-performing loans by business type

Unit: RMB'000

Item	31 December 2017			31 December 2016		
	Balance	Non-performing loans	Non-performing loans ratio	Balance	Non-performing loans	Non-performing loans ratio
Corporate loans and advances	446,591,730	6,589,357	1.48%	359,625,050	5,675,952	1.58%
Individual loans and advances	174,051,049	1,024,619	0.59%	119,098,293	792,572	0.67%
Property mortgage loans	64,532,841	135,029	0.21%	54,732,624	237,921	0.43%
Personal consumption loans	69,253,364	300,104	0.43%	27,666,884	97,644	0.35%
Personal business loans	15,422,125	200,028	1.30%	19,506,011	177,429	0.91%
Credit cards	24,842,719	389,458	1.57%	17,192,774	279,578	1.63%
Discounted bills	43,378,838	29,529	0.07%	75,275,957	29,529	0.04%
<b>Total</b>	<b>664,021,617</b>	<b>7,643,505</b>	<b>1.15%</b>	<b>553,999,300</b>	<b>6,498,053</b>	<b>1.17%</b>

## 3. Distribution of loans and non-performing loans by geographical region

Unit: RMB'000

Item	31 December 2017			31 December 2016		
	Balance	Non-performing loans	Non-performing loans ratio	Balance	Non-performing loans	Non-performing loans ratio
Shanghai	283,110,502	715,724	0.25%	226,841,887	927,739	0.41%
Yangtze River Delta, excluding Shanghai	155,183,207	2,351,538	1.52%	149,091,273	3,083,587	2.07%
Pearl River Delta (including Hong Kong)	118,964,819	969,794	0.82%	98,236,848	682,059	0.69%
Bohai Rim	82,370,257	2,530,807	3.07%	59,799,037	901,392	1.51%
Central and Western China	24,392,832	1,075,642	4.41%	20,030,255	903,276	4.51%
<b>Total loans and advances</b>	<b>664,021,617</b>	<b>7,643,505</b>	<b>1.15%</b>	<b>553,999,300</b>	<b>6,498,053</b>	<b>1.17%</b>

## 4. Distribution of loans and non-performing loans by types of security

Unit: RMB'000

Item	31 December 2017			31 December 2016		
	Balance	Non-performing loans	Non-performing loans ratio	Balance	Non-performing loans	Non-performing loans ratio
Unsecured loans	164,919,131	801,795	0.49%	119,154,203	499,742	0.42%
Guaranteed loans	147,244,504	4,243,331	2.88%	109,905,818	2,711,015	2.47%
Loans secured by monetary assets	138,724,051	459,938	0.33%	156,829,218	266,210	0.17%
Loans secured by tangible assets	213,133,931	2,138,441	1.00%	168,110,061	3,021,086	1.80%
<b>Total loans and advances</b>	<b>664,021,617</b>	<b>7,643,505</b>	<b>1.15%</b>	<b>553,999,300</b>	<b>6,498,053</b>	<b>1.17%</b>

## 5. Change in the provisions for impairment losses on loans

Unit: RMB'000

Item	2017	2016
Opening balance	16,602,775	15,142,379
Provisions for the year	7,584,810	5,614,770
Reversal during the year	-1,501,839	-893,025
Recovery of written-off loans during the year	717,305	444,572
Discount unwind	-105,336	-138,639
Write-off during the year	-2,444,785	-3,596,368
Others	-22,637	29,086
Ending balance	20,830,293	16,602,775

## Discussion and Analysis of Operation

To ensure the provisions for impairment losses on loans are adequate and are in accordance with the Accounting Standards for Business Enterprises No.22 - Recognition and Measurement of Financial Instruments, the provisions for impairment losses on loans are made individually and collectively. Loans with significant amounts are assessed for impairment losses individually. Where there is objective evidence of impairment, the difference between the present value of the estimated future cash flows of the loan (excluding future credit losses that have not been incurred) discounted at the original effective interest rate and its carrying amount is recognised as impairment losses on assets through profit or loss. Loans with insignificant amounts are assessed for impairment losses collectively based on transfer model or cumulative model. In the calculation of provisions for impairment losses using the transfer model, factors such as the transfer rate among five categories of quarterly classifications, total loss rate of the five categories, other factors affecting the identification of losses and current macroeconomic changes will be considered. In the calculation of provisions on impairment losses using the cumulative model, factors such as current and overdue balance as at the end of at least 36 months (personal loans) or 12 months (overdraft of credit card) prior to the month of impairment test, monthly cumulative rate of two consecutive overdue periods calculated according to the above information, average monthly cumulative rate and current macroeconomic changes will be considered.

During the reporting period, in line with its prudent approach, the Group fully assessed the influence of external changes of the macro-economy and austerity policies on the quality of loan assets so as to make sufficient provisions for impairment losses on loans and advances. As at the end of reporting period, the balance of provisions for impairment losses on loans and advances amounted to RMB20.830 billion, representing an increase of RMB4.228 billion as compared with the beginning of the period.

### 6. Details of top 10 industries with largest loan balance

During the reporting period, loans were mainly provided to industries such as leasing and commercial services, real estate, manufacturing, wholesale and retail and public utilities, basically the same as last year.

Unit: RMB'000

Industry	31 December 2017				31 December 2016			
	Balance	Percentage of total loans	Non-performing loans	Non-performing loans ratio	Balance	Percentage of total loans	Non-performing loans	Non-performing loans ratio
Leasing and commercial services	100,474,715	15.13%	73,903	0.07%	69,027,895	12.46%	223,156	0.32%
Real estate	91,483,798	13.78%	75,254	0.08%	53,581,874	9.67%	251,443	0.47%
Manufacturing	58,373,887	8.79%	3,026,508	5.20%	57,183,789	10.32%	2,524,682	4.42%
Wholesale and retail	54,333,821	8.18%	2,654,418	5.15%	53,521,651	9.66%	2,058,114	3.85%
Public utilities	45,124,402	6.80%	50,968	0.11%	35,531,610	6.41%	20,157	0.06%
Finance	20,247,009	3.05%	-	0.00%	28,256,954	5.10%	-	0.00%
Construction	16,877,230	2.54%	259,861	1.54%	18,631,284	3.36%	335,793	1.80%
Transportation, storage and postal services	13,981,002	2.11%	115,088	0.82%	12,299,716	2.22%	25,560	0.21%
Communication, software and IT services	10,653,383	1.60%	43,600	0.41%	3,350,228	0.62%	17,643	0.53%
Culture, sports and entertainment	8,704,215	1.31%	6,762	0.08%	6,108,662	1.10%	6,762	0.11%

### 7. Restructured loans and advances to customers

Unit: RMB'000

Item	31 December 2017		31 December 2016	
	Amount	Percentage of total loans	Amount	Percentage of total loans
Restructured loans and advances to customers	1,004,523	0.15%	884,737	0.16%

## 8. Overdue loans and advances to customers

As at the end of the reporting period, the balance of overdue loans of the Group was RMB6,979 million, representing a decrease of RMB255 million as compared with the end of the previous year. The balance of overdue loans accounted for 1.05% of the total loans, representing a decrease of 0.26 percentage points as compared with the end of the previous year. The Group has maintained prudent and strict classification standards for overdue loans. The percentage of loans overdue for more than 90 days and non-performing loans decreased to 0.70 from 0.88 as at the end of the previous year, surpassing other banks and reflecting the truthfulness and accuracy of the loan classification.

Unit: RMB'000

Item	31 December 2017		31 December 2016	
	Amount	Percentage of total loans	Amount	Percentage of total loans
Overdue for 1 day to 90 days (inclusive)	1,640,407	0.25%	1,525,069	0.28%
Overdue for 90 days to 1 year (inclusive)	2,653,086	0.40%	2,824,964	0.51%
Overdue for 1 year to 3 years (inclusive)	2,453,201	0.37%	2,799,040	0.51%
Overdue for more than 3 years	231,836	0.03%	84,170	0.02%
<b>Total</b>	<b>6,978,530</b>	<b>1.05%</b>	<b>7,233,243</b>	<b>1.31%</b>

Note: Difference between the sums of the amounts and the totals is due to rounding of decimal place.

## 9. Loan migration rate

Unit: RMB'000

Item	31 December 2017	31 December 2016	31 December 2015
Migration rate for normal loans	1.56%	1.78%	2.40%
Migration rate for special mention loans	38.49%	57.65%	56.92%
Migration rate for substandard loans	99.65%	95.59%	98.73%
Migration rate for doubtful loans	22.78%	20.24%	65.28%

## 10. Repossessed assets

Unit: RMB'000

Item	31 December 2017		31 December 2016	
	Amount	Amount of provision for impairment loss	Amount	Amount of provision for impairment loss
Equity	-	-	32,864	16,807
<b>Total</b>	<b>-</b>	<b>-</b>	<b>32,864</b>	<b>16,807</b>

Note: The repossessed assets represented the shareholdings in a third-party company.

## Discussion and Analysis of Operation

### (VI) Capital Adequacy Ratio and Leverage Ratio

#### 1. Capital adequacy ratio

Item	31 December 2017	31 December 2016	31 December 2015
Core tier-1 capital:	127,113,477	115,937,823	92,643,206
The portion of share capital which may be included	7,805,785	6,004,450	5,404,000
The portion of capital reserve which may be included	27,833,570	30,431,980	22,162,378
Surplus reserve	26,435,300	22,227,344	18,402,914
General reserve	25,780,256	21,245,093	16,668,113
Retained earnings	39,125,759	35,542,604	29,635,749
The portion of minority shareholders' capital which may be included	85,511	168,600	252,708
Others	47,296	317,752	117,344
Other tier 1 core capital:	19,968,571	10,603	10,063
Other tier 1 core capital instruments and related premium	19,957,170	-	-
The portion of minority shareholders' capital which may be included	11,401	10,603	10,063
Tier 2 capital:	23,209,591	21,128,557	20,799,728
Tier 2 capital instruments and related premium	10,000,000	11,000,000	12,000,000
Excess provision for doubtful debts	13,186,788	10,104,722	8,771,982
The portion of minority shareholders' capital which may be included	22,803	23,835	27,746
<b>Total capital</b>	<b>170,291,639</b>	<b>137,076,983</b>	<b>113,452,997</b>
Deductions:	-332,371	-392,782	-373,800
Deductible items of tier 1 capital	-332,371	-392,782	-373,800
<b>Net tier 1 core capital</b>	<b>126,781,106</b>	<b>115,545,041</b>	<b>92,269,406</b>
<b>Net tier 1 capital</b>	<b>146,749,677</b>	<b>115,555,644</b>	<b>92,279,469</b>
<b>Net capital</b>	<b>169,959,268</b>	<b>136,684,201</b>	<b>113,079,197</b>
<b>Risk-weighted assets</b>	<b>1,185,925,725</b>	<b>1,037,999,210</b>	<b>894,119,145</b>
<b>Tier 1 core capital adequacy ratio</b>	<b>10.69%</b>	<b>11.13%</b>	<b>10.32%</b>
<b>Tier 1 capital adequacy ratio</b>	<b>12.37%</b>	<b>11.13%</b>	<b>10.32%</b>
<b>Capital adequacy ratio</b>	<b>14.33%</b>	<b>13.17%</b>	<b>12.65%</b>

#### (2) Leverage ratio

Unit: RMB'000

Item	31 December 2017	31 December 2016
Net tier-1 capital	146,749,677	115,555,644
On-and-off balance sheet assets after adjustment	1,979,527,549	1,898,546,343
Leverage ratio	7.41%	6.09%

## (VII) Significant accounting estimates and judgments

The preparation of financial statements requires the management of the Group to make estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The underlying assumptions and uncertainties involved in the estimates are reviewed by the management of the Group on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. For details, see Note III 29 to the financial statements.

## (VIII) Analysis by business segment

The principal business segments of the Group include corporate banking, retail banking, treasury business and other businesses.

### 1. Profits before tax of principal business segments

Unit: RMB'000

Item	2017		2016	
	Amount	Percentage	Amount	Percentage
Corporate banking	6,603,955	41.06%	7,003,422	42.91%
Retail banking	2,976,070	18.51%	2,048,980	12.56%
Treasury business	6,238,497	38.79%	6,917,987	42.39%
Others	263,940	1.64%	348,984	2.14%
<b>Profit before tax</b>	<b>16,082,462</b>	<b>100.00%</b>	<b>16,319,373</b>	<b>100.00%</b>

### 2. Major operating data and changes of corporate banking segment

Unit: RMB'000

Item	2017	2016	Change
Net interest income	13,293,931	13,896,605	-4.34%
Net fee and commission income	3,328,362	3,635,473	-8.45%
Other operating income	331,950	181,457	82.94%
<b>Operating income</b>	<b>16,954,243</b>	<b>17,713,535</b>	<b>-4.29%</b>
General and administrative expenses	-4,435,500	-4,627,281	-4.14%
Impairment losses on assets	-5,684,080	-5,727,164	-0.75%
<b>Profit before tax</b>	<b>6,603,955</b>	<b>7,003,422</b>	<b>-5.70%</b>
	<b>31 December 2017</b>	<b>31 December 2016</b>	<b>Change</b>
<b>Segment Assets</b>	<b>532,042,805</b>	<b>461,373,136</b>	<b>15.32%</b>



## Discussion and Analysis of Operation

### 3. Major operating data and changes of retail banking segment

Unit: RMB'000

Item	2017	2016	Change
Net interest income	4,377,947	3,268,205	33.96%
Net fee and commission income	1,941,609	1,587,515	22.30%
Other operating income	27,877	31,113	-10.40%
<b>Operating income</b>	<b>6,347,433</b>	<b>4,886,833</b>	<b>29.89%</b>
General and administrative expenses	-2,877,574	-2,394,135	20.19%
Impairment losses on assets	-472,266	-401,427	17.65%
<b>Profit before tax</b>	<b>2,976,070</b>	<b>2,048,980</b>	<b>45.25%</b>
	<b>31 December 2017</b>	<b>31 December 2016</b>	<b>Change</b>
<b>Segment Assets</b>	<b>177,299,767</b>	<b>122,157,247</b>	<b>45.14%</b>

### 4. Major operating data and changes of treasury business segment

Unit: RMB'000

Item	2017	2016	Change
Net interest income	1,453,346	8,834,196	-83.55%
Net fee and commission income	768,285	579,960	32.47%
Net gain on investment	9,617,598	1,562,039	515.71%
Net (losses)/gains from changes in fair value	-5,579,918	2,116,455	-363.64%
Net foreign exchange gain/(loss)	3,185,773	-1,812,130	N/A
<b>Operating income</b>	<b>9,445,084</b>	<b>11,280,520</b>	<b>-16.27%</b>
General and administrative expenses	-703,656	-686,737	2.46%
Impairment losses on assets	-2,477,370	-3,434,058	-27.86%
<b>Profit before tax</b>	<b>6,238,497</b>	<b>6,917,987</b>	<b>-9.82%</b>
	<b>31 December 2017</b>	<b>31 December 2016</b>	<b>Change</b>
<b>Segment Assets</b>	<b>1,096,856,061</b>	<b>1,170,622,828</b>	<b>-6.30%</b>

## (IX) Analysis by geographical segment

### 1. Operating income by geographical segment

Unit: RMB'000

Regions	2017		2016	
	Amount	Percentage	Amount	Percentage
Shanghai	22,558,187	68.10%	22,975,398	66.78%
Yangtze River Delta, excluding Shanghai	4,216,996	12.73%	5,352,754	15.56%
Pearl River Delta (including Hong Kong)	3,365,683	10.16%	3,084,492	8.97%
Bohai Rim	2,367,977	7.15%	2,112,325	6.14%
Central and Western China	616,152	1.86%	878,548	2.55%
<b>Total</b>	<b>33,124,995</b>	<b>100.00%</b>	<b>34,403,517</b>	<b>100.00%</b>

## 2. Profit before tax by geographical segment

Unit: RMB'000

Regions	2017		2016	
	Amount	Percentage	Amount	Percentage
Shanghai	10,151,422	63.11%	11,339,182	69.47%
Yangtze River Delta, excluding Shanghai	3,075,780	19.13%	1,473,052	9.03%
Pearl River Delta (including Hong Kong)	2,114,877	13.15%	2,067,510	12.67%
Bohai Rim	990,198	6.16%	1,216,670	7.46%
Central and Western China	-249,815	-1.55%	222,959	1.37%
<b>Total</b>	<b>16,082,462</b>	<b>100.00%</b>	<b>16,319,373</b>	<b>100.00%</b>

## 3. Loans and advances to customers by geographical segment

Unit: RMB'000

Regions	2017		2016	
	Amount	Percentage	Amount	Percentage
Shanghai	283,110,502	42.64%	226,841,887	40.95%
Yangtze River Delta, excluding Shanghai	155,183,207	23.37%	149,091,273	26.91%
Pearl River Delta (including Hong Kong)	118,964,819	17.92%	98,236,848	17.73%
Bohai Rim	82,370,257	12.40%	59,799,037	10.79%
Central and Western China	24,392,832	3.67%	20,030,255	3.62%
<b>Total</b>	<b>664,021,617</b>	<b>100.00%</b>	<b>553,999,300</b>	<b>100.00%</b>

## 4. Deposits by geographical segment

Unit: RMB'000

Regions	2017		2016	
	Amount	Percentage	Amount	Percentage
Shanghai	661,050,831	71.57%	638,612,261	75.21%
Yangtze River Delta, excluding Shanghai	82,819,532	8.97%	87,225,692	10.27%
Pearl River Delta (including Hong Kong)	81,972,773	8.88%	63,603,345	7.50%
Bohai Rim	77,054,811	8.34%	41,212,771	4.85%
Central and Western China	20,687,377	2.24%	18,419,295	2.17%
<b>Total</b>	<b>923,585,324</b>	<b>100.00%</b>	<b>849,073,364</b>	<b>100.00%</b>

## Discussion and Analysis of Operation



## III. Off-balance sheet items that may materially affect financial situation and operating results

Unit: RMB'000

Item	31 December 2017	31 December 2016
Credit commitments	158,963,399	155,211,438
Among which:		
Available credit limit of credit cards	30,076,992	28,998,044
Irrevocable loan commitments	22,588,605	15,381,040
Letters of guarantee	50,732,587	38,393,413
Bank acceptances	49,439,368	66,324,220
Letters of credit	6,125,847	6,114,721
Lease commitments	1,383,166	1,589,837
Capital commitments	734,991	353,147

## IV. Business Overview

### (I) Corporate banking business

During the reporting period, in accordance with the macro economic and financial policy guidelines of China and adhering to the strategic goal of becoming a "boutique bank", the Bank further strengthened its value creation by increasing the general deposits from customers and acquisitions of quality assets in order to support the upgrade of industrial structure and urbanisation of the regions where our branches located. The Bank developed featured businesses such as financial services for technology and innovation finance and transaction banking, and continued to improve the quality and efficiency of customer services, which facilitated a stable, sustainable and innovative development of the corporate banking business.

#### 1. Customers

During the reporting period, the Bank established a categorised customer management system. Through categorised management and differentiated marketing, the Bank's customer base further expanded. As at the end of the reporting period, the Bank had 211.8 thousand customers, representing an increase of 7.85% as compared with the end of the previous year. During the reporting period, the Bank had 25.5 thousand new customers, contributing daily average deposits of RMB31.463 billion. Both of the number of new customers and daily average deposits hit new record high. For core customers, the Bank provided comprehensive financial service solutions under the strategy of "the strategy of "one policy for one customer"", which focused on the needs of core customers on financial services during the process of transformation and upgrade. The Bank also established innovative cooperation relationships in areas such as investment in industry fund, mixed ownership reform of state-owned enterprises and supply-chain finance. For SME customers, the Bank established the inclusive financial department and strengthened financing services to small and micro enterprises with standardised product portfolio. As at the end of the reporting period, the balance of loans to small and micro enterprises was RMB90.3 billion, representing an increase of 22.09% as compared with the end of the previous year.

#### 2. Corporate deposit and loan

During the reporting period, the Bank focused on the development of featured businesses such as transaction banking, cross-border banking, investment banking and custody banking, which has enhanced customer loyalty and boosted the growth of general deposit. Through participating in the reform of financial and taxation systems and the reform of state-owned enterprises, the Bank developed significant competitive strengths in the areas of reform of National Social Security Fund of Shanghai and fund supervision for major projects. As at the end of the reporting period, the balance of corporate deposit (including treasury

deposit) amounted to RMB637.881 billion, representing an increase of 11.05% as compared with the end of the previous year. The balance of demand deposit increased by 8.00% as compared with the end of the previous year, accounting for 50.41% of the total deposit. Balance of corporate deposit denominated in RMB accounted for 9.01% of the total deposit in PRC commercial banks in Shanghai, ranking top three in terms of the market share in Shanghai.

During the reporting period, the Bank proactively refined the structure of credit extension by increasing credit support to national and regional emerging strategic industries while maintaining strict risk limit. Major industries included advanced manufacturing, technology and innovation financing, supply-chain finance, mixed ownership reform of state-owned enterprises, real estate under the policy of prioritising renting over purchasing of houses, urban renovation and reconstruction and financing for regional economic development. As at the end of the reporting period, the balance of corporate loans and advances amounted to RMB428.509 billion, representing an increase of 24.95% as compared with the end of the previous year.

#### 3. Technology and innovation financing

During the Reporting Period, the Bank put efforts in developing the unique brand of technology and innovation financing by proactively supporting the construction of Shanghai Technology Innovation Center and establishing mechanism and service systems in respect of our products, customers, specialised departments, appraisals and incentives and risk management to facilitate the business development of technology and innovation financing. With focus on major projects that fulfilled the requirements of economic structure adjustment and industry upgrade and development in Shanghai, it provided comprehensive financial services for the establishment of Zhangjiang Hi-Tech Park and various hi-tech industry zones in Zizhu, Caohejing, Jiading and Lingang. As at the end of the reporting period, the balance of loans granted for technology and innovation financing amounted to RMB47.762 billion, representing an increase of 13.92% as compared with the end of the previous year.

The Bank continued to enrich the product and service portfolio of technology and innovation financing. Special service plans were offered for small and medium-sized enterprises engaging in specialised, delicate, unique and innovative businesses in Shanghai. As at the end of the reporting period, the Bank cooperated with 618 enterprises, accounting for over 30% of the total number of enterprises in this segment in Shanghai. The Bank debuted the first "long-term loan with low initial interest rate" business to provide financing services at the start-up stage of enterprises through flexible pricing model. As at the end of the reporting period, the Bank granted long-term loans with low initial interest rate to 124 technology and innovative enterprises, and the outstanding facilities amounted to RMB806 million. The Bank also facilitated the innovation of integrated services for investment and lending. It strengthened the cooperation with external investment firms with

## Discussion and Analysis of Operation

high quality, and supported technology and innovative enterprises by offering "loans+ external direct investment" model. As at the end of the reporting period, the balance of loans under the integrated investment and lending model amounted to RMB909 million, showing a steady growing trend.

### 4. Transaction banking

During the reporting period, the Bank positioned itself as a provider of "supply-chain finance". It built a shared service platform based on the needs of the core enterprises and its upstream and downstream supply-chain finance to link up the upstream, downstream and other parties of the supply chain to facilitate interaction, collaboration and transparency. The platform also provided all-rounded, full-process, structured and multi-channelled comprehensive financial services for transactions at different stages, such as financing, payment and settlement and wealth accumulation. As at the end of the reporting period, the outstanding loans for supply-chain finance amounted to RMB22.150 billion, representing an increase of 28.85% as compared with the end of the previous year.

For cash management business, the Bank strove to reduce transaction cost and enhance transaction efficiency and capital operation efficiency for customers. With the application of internet, the Bank continuously promoted product innovation and streamlined business process. Innovative products such as easy receipt and barcode payment were launched, and the cash management platform featuring payment and settlement, trading financing, cash management, capital supervision and wealth management was set up. As at the end of the reporting period, the Bank had 3,430 cash management customers, including 553 corporate groups. The transaction volume amounted to RMB2.48 trillion, representing an increase of 36.15% as compared with the previous year. The daily average of concentrated deposits increased by RMB20.691 billion as compared with the previous year.

### 5. Cross-border banking

During the reporting period, the Bank further reinforced the multi-layered cross-border collaboration platform with innovative cooperation model and more diversified product portfolio. Capitalising on our advantage in channel resources, the Bank provided customised and high quality cross-border financing services to customers. Firstly, the Bank built up strategic alliances with different organisations. The strategic cooperation of "Three Shanghai Banks" (i.e. Bank of Shanghai in Shanghai, Shanghai Commercial Bank in Hong Kong, and The Shanghai Commercial and Savings Bank in Taiwan) marked the 19th anniversary. The Bank also commenced close strategic collaboration with Santander from 2014. Effective cross-marketing and customer referral mechanisms have been formed. The unique collaboration model has enhanced its ability in providing cross-border services. Secondly, the Bank effectively expanded and deployed the overseas business channels

of the Group to provide efficient collaborative service. With the Bank's advantages in location, resources and licenses through its Hong Kong subsidiaries, in addition to supporting the traditional cross-border business, the Bank also enhanced the collaboration of investment bank and commercial bank. To further improve customer services, the Bank promoted product innovation and offered a series of financing services, including cross-border settlement, investment and financing, bond issuance, merger and acquisition and financial advisory.

During the reporting period, in response to the general market environment and policy orientation, the Bank focused on expanding cross-border financial business. The income from intermediate business amounted to RMB848 million, representing an increase of 25.44% as compared with 2016. The Bank provided specific cross-border services to our core customers under capital account and both RMB and foreign currency business enjoy a positive interaction. The business scale of cross-border investment and financing service amounted to RMB26.517 billion. Through the cooperation with multiple domestic and foreign internet enterprises, the Bank expanded online service channels including foreign currency settlement and currency exchange services, which formed the feature of "internet + cross border business". In addition, the Bank continued to enrich the free trade product portfolio with innovative features. There were a total of 5,516 FT accounts under FTU, representing an increase of 30.46% as compared with the end of 2016. The Bank established 43 free-trade cross-border and foreign currency pools, representing an increase of 19.44% as compared with the end of 2016.

### 6. Investment banking business

During the reporting period, the Bank transformed its investment banking business towards light capital based on a platform offering transaction services and achieved steady business growth in terms of income and scale.

As at the end of the reporting period, despite the decrease of total underwriting amount of debt financing in the market by 22.60% as compared with the end of the previous year, the amount of debt financing underwritten by the Bank increased 9.75% as compared with the end of the previous year to RMB58.166 billion, representing a market share of 1.48%, which was 0.48 percentage point higher than that of the end of the previous year. For merger, acquisition and restructuring, the Bank proactively supported the merger and acquisition business of quality listed companies and provided services to facilitate the mixed ownership reform of state-owned enterprises. The assets securitisation business also achieved breakthrough, with a total issue size amounting to RMB16.065 billion. The Bank completed various innovative businesses, such as CMBS and supply chain finance assets securitisation. The Bank's specialised asset securitisation business has been developed.

During the reporting period, the investment banking and financing advisory income amounted to RMB1.108 billion.

## 7. Custody banking

During the reporting period, in response to the market needs, the Bank promoted its three major products, namely assets custody, administrative and management service and fund supervision. By expanding the business coverage and product portfolio, the Bank's business scale and income continued to grow steadily. The Bank provided comprehensive financial custody services for customers including securities companies, fund companies, custody companies, commercial banks, insurance companies and private investment institutions, and introduced new custody services. Focusing on private investment institutions, the Bank offered various administrative and management services such as share registration, valuation and accounting, and developed numerous new fund custody products to provide supervision services for investment/trading funds, proceeds from IPO/ private placement/ debt issuance, ABS receivables and other project funds. Targeting customers in the trading market, payment agents and e-commerce platforms, the Bank provided innovative services such as Yin Shang Tong, payment supervision for sales of funds and escrow service for payment agents.

As at the end of the reporting period, the custody banking business of the Bank amounted to RMB1,866.553 billion, representing an increase of 30.51% as compared with the end of the previous year. Assets custody business amounted to RMB1,651.100 billion, representing an increase of 15.44% as compared with the end of the previous year. During the reporting period, the income of custody banking business amounted to RMB1.065 billion and the custody fee income amounted to RMB1.017 billion.

## (II) Retail banking

During the reporting period, the Bank adhered to the customer-oriented approach with focus on consumer finance, wealth management and pension finance so as to accelerate innovation in business model and products. The Bank further refined its service system to promote the transformation and enhance the value contribution of retail banking. As at the end of the reporting period, the number of retail customers of the Bank amounted to 12.9179 million, representing an increase of 8.38% as compared with the end of the previous year. AUM of individual customers amounted to RMB429.803 billion, representing an increase of 8.34% as compared with the end of the previous year. The balance of individual loans and advances (including credit cards) amounted to RMB173.091 billion, representing an increase of 46.56% as compared with the end of the previous year. In addition, the customer structure was further improved. The percentage of individual customers with average monthly AUM of RMB0.5 million or above on daily basis and the ratio of AUM of customers increased by 0.10 percentage point and 1.31 percentage points, respectively.

### 1. Consumption finance

During the reporting period, the Bank grasped the opportunities arising from the changes in the economic growth trend and the

transformation and upgrade of consumption, and focused on developing consumer finance business to promote the growth of retail credit and adjust the credit structure. Firstly, targeting at automobile and other key areas of consumption, the Bank fortified the cooperation with leading institutions in those industries and further deepened the cooperation with major partners. Secondly, the Bank optimised the structure of proprietary consumption credit products. The Bank launched different credit services to cater for the needs of different customer groups, including Xinyidai for provident funds and credit loans for premium customers. The Bank also launched "Xinyidai" brand for ongoing promotion and marketing. Thirdly, in order to enhance customers' experience, the Bank further optimised the business process of retail credit products. Fourthly, the Bank improved its channel service by optimising online processing capability of e-banking business and expanding WeChat banking services. Fifthly, the Bank strengthened its risk closed-loop management capabilities in the whole process and further improved its risk management in different steps, including policy study, industry prejudgment, data application, modeling, process development, approval monitoring and adjustment and post-loan management. Lastly, in order to improve its compliance management, the Bank strictly controlled the entry of customers and enhanced its post-loan management. The Bank also strictly monitored the flow and use of capital. As at the end of the reporting period, the balance of consumption loans (including credit cards) accounted for 54.12% of the total outstanding loans, representing an increase of 16.51 percentage points as compared with the end of the previous year. The balance of individual loans and advances (including credit cards) in Shanghai accounted for 5.58% of the total individual loans and advances of all PRC banks, representing an increase of 0.95 percentage point as compared with the end of the previous year.

### 2. Wealth management

During the reporting period, the Bank responded to challenges of market capital shrinkage and intensified impact from internet finance by expanding and consolidating customer base in order to increase the AUM of customers, which facilitated the steady growth of individual deposits. It strengthened the cross-selling capacity between corporate and retail banking and continued to promote the development of basic services such as payroll transfer, relocation and demolition, and collection and payment services. The Bank also enhanced targeted sales of time deposits and certificates of deposit by using data analysis and business intelligence so as to improve the scale and stability of core deposits. By establishing individual classified account system and expanding business application, the Bank satisfied various payment and settlement requirements of customers. As at the end of the reporting period, balance of individual deposits in RMB and foreign currencies of the Bank amounted to RMB204.954 billion, including saving deposits of RMB176.506 billion. Percentage of demand deposits continued to improve. The balance of individual RMB deposits of the Bank in Shanghai accounted for 7.02% of the total individual deposits of local PRC commercial banks, representing an increase of 0.11 percentage point as compared with the end of the previous year.



## Discussion and Analysis of Operation

During the reporting period, based on customers' need for diversification of financial assets distribution, the Bank sought for breakthroughs in wealth management business by enriching product line and multi-channel sales. During the reporting period, online promotions were conducted on cyclical open-end wealth management products, net value wealth management product named "Jingxiangli", new account wealth management product and specialised wealth management product for payroll transfer customers. The types of investment products were enriched through strengthening interbank collaboration. The Bank continued to introduce and enhance the sales of credit products and collective wealth management products issued by securities dealer. The structure of insurance products was transformed and refined according to regulatory guidelines. Online sales channel was launched with more product distribution in mobile banking and online banking. Exclusive online insurance products were also developed. Offline sales management was enhanced and model branch of sales was established. As at the end of the reporting period, balance of individual wealth management products amounted to RMB184.608 billion, representing an increase of 9.55% as compared with the end of the previous year. During the reporting period, the sales of personal wealth management products, distribution of funds and agency sales of insurance amounted to RMB 1,164.746 billion, RMB 23.496 billion and RMB 4.896 billion, respectively. As at the end of the reporting period, individual customers with average monthly AUM above 0.5 million on daily basis of the Bank amounted to 183.3 thousand, representing an increase of 16.54% as compared with the end of the previous year. The AUM of the abovementioned customers amounted to RMB 247.635 billion, representing an increase of 10.87% as compared with the end of the previous year. During the reporting period, the Bank won the "Excellent City Commercial Bank in Wealth Management of the Year" of "Golden Wealth Management" by the Shanghai Securities News.

During the reporting period, the Bank introduced integrated financial solution for private banking with focus on financing, assets management, family business and loyalty management and established an open-end product and service platform. The Bank satisfied the financing needs of private banking customers with specified loans secured by monetary assets, credit loans and loans secured by tangible assets. It satisfied assets allocation and diversified investment needs of private banking customers with products including cash management, personalised wealth management, fixed-income products and private equity. It also satisfied the customers' needs of family wealth management, allocation and inheritance with inheritance and high-level protection insurance and family trust. The Bank continued to explore in business aspects including charity trust and family fund. The Bank also issued an exclusive black gold card for private banking customers with privileges and VIP benefits so as to establish its brand of private banking value-added services. As at the end of the reporting period, individual customers with average monthly AUM above 3 million on daily basis of the Bank amounted to 12,171, representing an increase of 13.11% as compared with the

end of the previous year. The Bank won the "Best Regional Private Bank of China" in the annual evaluation of Private Banking Business Professional Committee held by the China Banking Association. It also won the "Best Private Wealth Philanthropic Services Award in China" in the annual evaluation held by The Asian Banker.

### 3. Pension finance

During the reporting period, the Bank attentively established featured business of pension finance based on the theme of "Good Life". Based on the pension needs of customers, the Bank continued to refine the system of pension finance product to maintain its simplicity, convenience and stability. Specified pension products including "Carefree Pension" and "Pension Enjoyment" covered over 0.2 million pension customers. The "Good Life" mobile banking was upgraded to improve customers' operating experience including assets overview and preferential interests. Number of users almost doubled as compared to the previous year. "E Wealth Management", for remote pension management was launched to provide financial services for customers through mobile banking. Supporting the initiative of the Shanghai social security system to promote pension transfer by bank card and to deposit book, the Bank offered safe and convenient pension payment services for the elderly. To fulfill customers' needs of pursuing exquisite lifestyle, the Bank enriched the value-added service platform for the elderly to cover their recreational, leisure and entertainment life by selecting merchants as "Yinfa Partner", which consisted over 300 stores providing services such as healthcare and recreational consumption. The Bank established 50 branches specialising in pension finance to optimise customer services for the elderly. During the reporting period, the Bank adhered to the service principle of respecting and caring for elderly and became a pioneer member of the elderly card union of Shanghai. The Bank's pension finance services were highly praised by the "providing good life with ingenuity spirit" research conducted by China Banking Association and other media organisations.

As at the end of the reporting period, the number of customers of pension business was 1,557,500 with over 20 million pension transfers annually, serving over one-third of pension customers in Shanghai. The total assets from customers of pension business were RMB183.261 billion, representing an increase of 14.08% as compared with the end of the previous year. The percentage in AUM of individual customers was 42.64%, representing an increase of 2.14 percentage points as compared with the end of the previous year. Pension customers were the main source of saving deposits of the Bank, accounting for 49.80% of saving deposits of the Bank, representing an increase of 1.19 percentage points as compared with the end of the previous year.

### 4. Bank card business

During the reporting period, the Bank enriched its bank card products and improved the quality of bank card services so as to satisfy diversified customer needs in bank card usage. During the

reporting period, the total number of bank cards issued by the Bank amounted to 15.50 million, representing an increase of 12.43% as compared with the end of the previous year. Bank card spending amounted to RMB187.029 billion, representing an increase of 8.18% as compared with the end of the previous year.

**Credit card business:** Transformation progress achieved significant results as a result of improvement in customer management, customer service and closed-loop development of risk management. The Bank reinforced its product innovation and issued co-branded cards through cooperation with major e-commerce platforms. With a more mature sales system and a breakthrough in customer acquisition via internet, the Bank saw rapid growth in customer base. The Bank promoted consumption loans with credit card instalments through enrichment of instalment options, improvement of marketing model and optimisation of the business structure, which resulted in a fast increase in revenue contribution. The Bank enhanced its online operation platform through developing a credit card interface exclusive for mobile banking customers. Additional travel services were offered to allow online reservation for value-added services. Self-service process was implemented for redemption of bonus points in the e-mall of mobile banking. The Bank also put efforts in the development of urban consumer services and continued to refine the scenarios in accordance with customers' needs. The Bank was the first in the industry to launch non-inductive payment service for smart parking, which covered more than 200 car parks and nearly 10,000 parking spaces. Promotion of the brand "Together" was strengthened through various promotional and discount events on gourmet, entertainment and travel to enhance experience of convenient payment. As at the end of the reporting period, the Bank issued an aggregate of 5.6191 million credit cards, representing an increase of 22.53% as compared with the end of the previous year. The overdraft balance of credit card amounted to RMB24.843 billion, representing an increase of 44.49% as compared with the end of the previous year. The market share of credit card business showed steady growth. During the reporting period, credit card consumption amount reached RMB82.605 billion, representing an increase of 10.72% as compared with the previous year. Credit card transactions amounted to RMB84.812 billion, representing an increase of 11.12% as compared with the previous year.

**Debit card business:** The Bank cooperated with quality external institutions to issue co-branded cards and enriched the portfolio and function of its debit cards. In particular, the Bank issued Huicheng co-branded card and launched "Huijinbao" service to provide customers with comprehensive financial services through the integration of resources and products of the Bank and fund corporations. The Bank also issued Changjiang pension co-branded card as an auxiliary product for annuity loan business. To support the development of Shanghai into a smart city, the Bank issued Qingpu community citizen cards, which allowed the use of financial IC card in areas such as community service. The Bank issued Wuxi metro card and Suzhou travel card which integrated the transportation card with the debit card, and launched salary

management card, a debit card specialised for payroll service. Based on the requirement of account classification, the Bank issued physical debit cards for Class II accounts. The Bank also actively engaged in the marketing of debit card spending and mobile payment to promote the popularity and transaction of debit cards. As at the end of the reporting period, the Bank issued an aggregate of 9.8809 million debit cards, representing an increase of 7.40% as compared with the end of the previous year. The annual debit card spending amount was RMB104.424 billion, representing an increase of 5.70% as compared with the previous year.

### (III) Financial market business

During the reporting period, the Bank continued its reform in operation model and business structure of its financial market business. The Bank enhanced the integration with traditional business to increase support for real economy while downsized its interbank investment by over 15% as compared with the beginning of the period. With steady development of all financial market businesses, the Bank further consolidated its position as a major dealer in the financial market.

During the reporting period, the overall market capital supply was tight, the cyclical fluctuation of interest rate was significant and the base rate also increased significantly. The Bank optimised its structure of assets and liabilities based on the in-depth study of the macroeconomic and financial conditions and in compliance with the requirements of regulatory policies. For the assets, the Bank further increased the allocation of standard assets such as credit bonds and rate securities and reduced investments in interbank business. For liabilities, the Bank carefully controlled the scale and proportion of interbank financing, and decreased the percentage of interbank liabilities, including certificates of deposit, to the range prescribed by the regulatory requirements in advance. Meanwhile, the Bank reasonably allocated its assets and liabilities according to the market changes timely so as to prevent impacts from liquidity and interest rate risks effectively.

During the reporting period, the Bank further promoted interbank cooperation and actively expanded business channels in order to achieve a higher transaction volume. The Bank consolidated its cooperation with different counterparties, including banks, securities firms, trust companies, fund management companies, insurance companies and financial asset management companies in the money market, bond market, derivatives market, bill market, gold market and foreign exchange market, and was actively involved in various transactions in the financial market. The Bank continued to obtain various business qualifications. It became one of the first domestic market makers of Bond Connect in July and maintained major qualifications such as primary open market dealer, SHIBOR quoting bank, bond market maker, bilateral quotation provider of interest rate swap and pricing member for Shanghai Gold Benchmark Price. As such, the Bank further consolidated and enhanced its brand position.



## (IV) Asset management business

During the reporting period, the Bank further fostered the innovation in wealth management business based on the changes in regulations and market trend. The Bank strengthened its competitiveness and fulfilled diversified wealth management and investment needs of customers through speeding up the transformation of products and optimising its asset portfolio. The wealth management business developed soundly. In the year, the Bank issued a total of 2,020 wealth management products with total sales of RMB1,887.2 billion.

The Bank fostered the innovation and transformation of wealth management products. Firstly, the Bank optimised its product system. As at the end of the reporting period, wealth management products of the Bank covered fixed income and mixed income products. Secondly, the Bank distinguished its wealth management business by optimising product offerings and speeding up the transformation to net-worth products. During the reporting period, the Bank newly introduced net-worth open-end products, "Jingxiangli". As at the end of the reporting period, the number of net-worth products accounted for 41% of the total number of wealth management products targeting at high net worth customers. The Bank gradually transformed its close-end products to open-end products and the proportion of the balance of open-end products increased by 21 percentage points to 44%. Thirdly, the Bank adjusted the term structure of its products and improved the duration management of its projects. The Bank also increased the number of non-guaranteed middle- and long-term products. As at the end of the reporting period, the number of non-guaranteed middle- and long-term products accounted for 34% of the total number of products.

The Bank optimised its wealth management assets investment portfolio. In respect of bond assets, the bank improved the liquidity of portfolio by shortening the duration of newly invested assets, and increasing the proportion of bond assets. The Bank also enriched the offerings of fixed income wealth management products through expanding bond and fund investment products. In respect of non-standard credit assets, the Bank strictly complied with regulatory guidance and optimised the investment in assets based on its objective of serving the real economy. During the reporting period, the Bank strictly controlled the proportion of non-standard credit assets within the limit as stipulated by regulations. In respect of capital market business, the Bank gradually increased the investment in equity through focusing on the provision of direct sales services to corporate customers and provision of integrated financial services. The Bank also increased investments in assets such as exchangeable bonds and equity swap of exchangeable bonds, so as to optimise asset investment system and allocation structure.

The Bank refined its risk management mechanism and internal control system. Through exploring ways to mitigate all kinds of risks and promoting the application of risk management system and tools, the capability to identify, analysis and handling risks of

the Bank was strengthened. The Bank also exerted great efforts in improving the business management and further optimised its business mechanism and process. Furthermore, the Bank strengthened its operational risk management and promoted the standardisation of business operation. The Bank enhanced the control of risks before investment and during the course of investment. The Bank implemented strict credit approval policy and reviewed the financing entities based on penetration principle. Through managing post-investment risks, the security of wealth management investment was enhanced.

## (V) Internet finance business

During the reporting period, the internet finance business of the Bank recorded a rapid growth. The Bank promoted the innovation in internet banking business such as deposit, loans, remittance and payment through integrating online and offline scenario with the application of technology and put great efforts in developing inclusive finance business so as to position itself as an internet financial services provider with unique features. As at the end of the reporting period, the number of online retail customers amounted to 12,865,700, representing an increase of 83.19% as compared with the end of the previous year, ranking top among peers. The number of active customers for the year amounted to 3,454,200, representing an increase of 310.38% as compared with the end of the previous year. The balance of consumption loans amounted to RMB29,797 million, representing an increase of 124.64% as compared with the end of the previous year. During the reporting period, the total number of transactions conducted through internet amounted to 93.5664 million, representing an increase of 212.50% as compared with the end of the previous year. The sales volume of wealth management products amounted to RMB17,351 million, representing an increase of 726.24% as compared with the end of the previous year. Through online direct banking platform, the limited coverage of physical network of the Bank was effectively supplemented and the financial services of the Bank was able to reach all regions in China. The number of customers in regions where we have not set up branches reached 12,055,000, accounting for 93.70% of the total number of customers. 99.55% of our internet customers were customers of other banks. The average age of our internet customers was 32 years old. 53.09% of our internet customers came from first and second-tier cities. During the reporting period, the market influence and recognition of BOSC Express, the online direct banking brand of the Bank, continued to improve. BOSC Express was awarded Outstanding Internet Finance Platform for 2017 and was recognised as one of Top 10 Fintech Innovation Case for 2017.

The Bank further innovated internet financial products and services. During the reporting period, our portfolio comprised five categories of internet financial products and services offering various innovative functions in respect of new payment, payment and settlement, wealth management, consumption loans and cross border business. The competitiveness of our products and services was strengthened continuously. Furthermore, the Bank introduced the first mobile ePay service via co-branded card in

China and attracted 1,871,400 customers. 15,340,500 transactions with transaction volume of RMB2,530 million in aggregate were completed through such function. the Bank was one of the first batch of banks participating in the Mobile Payment Convenience Demonstration Project launched by the People's Bank of China and the first batch of banks introducing Unionpay QuickPass service, a mobile payment platform. The Bank enriched its offerings of online fund custody products and provided new online depository services, such as Yinshangtong and payment escrow for payment institutions, based on the demands from the transaction market and the needs of payment institutions, electronic business platform and other customers. The Bank also introduced innovative online international remittance services, which provided retail customers, small and micro enterprises with convenient and fast online currency exchange, cross-border remittance and export e-commerce oversea payment services through cooperating with various domestic and overseas internet platform. The Bank, therefore, distinguished itself with its "internet + cross-border business". During the reporting period, the Bank provided convenient internet financing services to over 8,000 small and micro enterprises and completed 635,900 transactions with the total transaction volume of USD1,978 million.

The Bank further expanded its internet finance business. In order to provide professional services featuring "Internet + Industry + Finance", the Bank promoted the cooperation with target partners such as e-commerce platforms, large enterprises and industry professional platforms in respect of internet finance. The Bank established an ecosystem which effectively integrated its internet financial services with the cooperation platforms in both online and offline scenarios, so as to provide retail customers and small and micro customers in such ecosystem with convenient financial services. During the reporting period, over 85 new cooperative platform projects were launched and the total number of cooperative platform projects exceeded 150, representing an increase of 32.56% as compared with the previous year. The Bank has already established business relationship with various well-known industry platforms and enterprises, such as Webank, Ant Financial, JD Finance and VIP Financial.

The Bank explored the application of Fintech in internet finance. The Bank actively integrate into the development of Fintech and the number of IT technicians increased by 9.3% during the reporting period. The Banks also established a digital innovation management office under the Technology Management Committee, which is responsible for the overall digital innovation of the Bank. Furthermore, the Bank established a big data application platform covering external data in 35 categories from 16 companies. By fully capitalizing its internal and external data and applying Big Data processing and mathematical modeling analysis, the risk management capability of the Bank was strengthened. The Bank valued data application as the core of operation and innovation and fully integrated data technology with operation management. Data application has become one of the competitive advantages of our internet finance business. Leveraging on its big data service capability, the Bank promoted the digitalization,

automatization and intelligentization of its financial business. The Bank identified risks, approved and managed credit accurately by using quantitative risk measurement tools. The processing time for online consumption loans was shorten significantly to second level. The daily maximum number of transactions reached 300,000.

The internet finance system and its development model were advanced and efficient. The Bank established an independent but integrated internet finance business system, which covers a wide range of functions, including accounts and accounting processing, business management and credit approval, and supports the internet business with its high concurrency and high reliability performance. In addition, the Bank introduced OpenAPI, an innovative internet financial service by making full use of Fintech. During the reporting period, the OpenAPI financial service was successfully implemented on the application access platform. The Bank unified the access to all types of internet financial service applications based on the standardized interface specification under internet industry standards and safe interactive communication mode. The Bank put great efforts in developing its internet financial services to fulfill the customers' needs of advanced and effective technology and promote the integration of finance and technology of the Bank.

### (VI) Establishment of channels

The Bank has always striven to position itself as a corporate offering smart financial and professional services. It has optimised the channel distribution and structure and established a collaborative system consisting of the mobile banking, branch outlets and customer service channels (B2A+T). Omni-channel operation of the Bank has been further upgraded with focus on digitalised and smart services to enhance customers' experience.

#### 1. Online channels

The Bank focused on the innovation of mobile banking, refinement of internet banking channel and construction of remote customer service channel to enhance service efficiency and customer' experience. As at the end of the reporting period, the online and self-service transaction rate was 90.84%, representing a year-on-year increase of 5 percentage points.

##### Mobile banking channels

Personal mobile banking services were fully digitalised and the new 5.0 version was launched with a simplified and smart system. In response to customers' feedbacks and aiming to provide personalised services, the Bank launched three unique mobile banking versions, including "Smart Wealth" for wealth management customers, "Credit Card Enjoyment" for young consumers and "Good Life" for pension finance customers. In the new version of personal mobile banking, customers were offered with product recommendation based on business intelligence, online investment specialist and smart customer service through machine learning, comprehensive mobile payment system using

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barcode and NFC technology and other smart services such as voice navigation and face ID functions based on biometric authentication. The Bank also introduced new functions such as BoS e-card, online application for Xinyidai, personalised information and smart travel. Various services including investment, payment and foreign exchange settlement and sales were upgraded. For corporate mobile banking, new functions including general E shield, account summary, transfer, wealth management and "Cards for Settlement and Loan" were launched to enhance service efficiency for small and medium enterprises. Our mobile banking service won awards including "China Banking Innovation Pioneer for 2017", "The Best Mobile Banking Award of Regional Commercial Bank for 2017" and "Outstanding Mobile Payment Bank of the Year". As at the end of the reporting period, the number of personal mobile banking customers was 3,137.9 thousand, representing an increase of 43.92% as compared with the end of the previous year. The number of personal WeChat banking customers was 2,165.5 thousand, representing an increase of 55.36% as compared with the end of the previous year. The number of corporate mobile banking customers was 58.2 thousand, representing an increase of 42.20% as compared with the end of the previous year.

### Internet banking channels

For personal internet banking, new functions including offline IPO transfer, net worth wealth management and sales of insurance was added and services of wealth management for new accounts, foreign exchange purchasing and transfer limit management. For corporate internet banking, new functions including duty payment, e-account transfer, bonus point express, online credit application were launched and services of supply chain finance, cash withdrawal machine appointment, electronic bills and general E shield were refined. As at the end of the reporting period, the number of personal internet banking customers was 4,095.3 thousand, representing an increase of 11.39% as compared with the

end of the previous year. The number of corporate internet banking customers was 154.9 thousand, representing an increase of 11.98% as compared with the end of the previous year.

### Remote customer service channels

The Bank continued to develop its remote customer service channel consisting of three major business systems, namely remote service, remote operation and remote support. Focus was put on the development of pension finance, credit card instalment and retail credit business to provide services with professionalism, care and trustworthiness. As at the end of the reporting period, remote account management customers amounted to 400 thousand and AUM under remote accounts increased by 40.02%. Customer acquisition through remote account opening and performance of credit card telemarketing achieved satisfactory growth.

## 2. Physical channels

The Bank has adhered to its strategy of becoming "a boutique bank" and aimed to establish branch channels with smart, professional, caring and high quality services. The Bank also optimised the network and functions of branches and outlets through site selection and business distribution. Intelligence level of branch outlets was further improved by launching new intelligent teller machine and comprehensive financial services based on customers' needs, including cash in large amount, petty cash services, withdrawal and issuance of certificate of deposit, intelligent interaction experience and personalised sales recommendation. Customer service capabilities and operating efficiency of branch outlets were improved.

As at the end of the reporting period, the Bank had a total of 312 branches and 558 self-service stations. The branches of the Bank are set out as follows:

Name	Address	No. of branches	No. of employees
Head Office	No.168, Middle Yincheng Road, China (Shanghai) Pilot Free Trade Zone	1	1,572
Credit Card Centre	Tower 3, Data Processing Centre of Bank of Shanghai, No.555, Lai'an Road, Pudong New District, Shanghai	1	195
Financial Services Centre for Small Enterprises	36/F, No.168, Middle Yincheng Road, China (Shanghai) Pilot Free Trade Zone	1	17
Metropolitan South Branch	101-103, 105-108, 126, 132, 2/F (partially), 23/F, 25/F, 26/F & 27/F, No. 28, Yuanwen Road, Minhang District, Shanghai	45	1,007
Puxi Branch	Room 01-02 on 1/F, Room 01-02 on 2/F, Room 01-02 on 3/F, Room 01-02 on 4/F, 5/F and 6/F, Building No.2, No.595, North Caoxi Road, Xuhui District, Shanghai	54	1,232
Metropolitan North Branch	9/F & 10/F, No.2 Lane 839, Dalian Road and No.813 B, Dalian Road, Hongkou District, Shanghai	77	1,573
Pudong Branch	No.699, Zhangyang Road, China (Shanghai) Pilot Free Trade Zone	26	633
Shanghai Pilot Free Trade Zone Branch	Lobby (partially) & South Block 6/F, Zhonglv Building South Block, No. 53, Changqing Road North, China (Shanghai) Pilot Free Trade Zone	12	200
Puxi Branch	No.261, Sichuan Middle Road, Huangpu District, Shanghai	3	299
Fumin Branch	No.360, Fengyang Road, Huangpu District, Shanghai	3	106
Baiyu Branch	No.798, Zhaojiabang Road, Xuhui District, Shanghai	4	87
Ningbo Branch	No.74, 80, 90, 92, 93, 95-110 & 112, Yangfan Plaza, Ningbo Hi-Tech Zone, Zhejiang	9	332
Nanjing Branch	No.22, Beijing East Road, Xuanwu District, Nanjing, Jiangsu	12	520
Hangzhou Branch	No.200, Xinye Road, Jianggan District, Hangzhou, Zhejiang	11	389
Tianjin Branch	1-4/F, No.36 & 38, Leyuan Road, Hexi District, Tianjin	12	341
Chengdu Branch	Block 2, No.1, Hangkong Road, Wuhou District, Chengdu, Sichuan	9	284
Shenzhen Branch	Northern East Wing, 1/F, Commercial Complex, and 32/F & Room 12-16, East Wing, 33/F, Prime Office Block, Great China International Exchange Square, No. 1, Fuhua First Road, Futian District, Shenzhen	16	581
Beijing Branch	1/F, 8/F, 9/F & 10/F, No. 12, Jianguomenwai Avenue, Chaoyang District, Beijing	6	295
Suzhou Branch	Bldg 23, Time Square, Suzhou Industrial Park, Suzhou, Jiangsu	10	337
<b>Total</b>		<b>312</b>	<b>10,000</b>

Notes: Branches of the Bank do not include subsidiaries.

## V. Performance and profitability of wealth management business, asset securitisation, custody, trust and financial planning business during the reporting period

### (I) Performance and profitability of wealth management business during the reporting period

Wealth management business of the Bank mainly refers to the entrusted and authorised investment and asset management conducted by the Bank in the manner pre-agreed with the customers, with risks and returns borne and entitled by the customers according to the agreement. Products include private and corporate wealth management products. Working procedures of wealth management business mainly include product development, approval of products, regulatory reporting and filing, product sales, investment management and duration management.

During the reporting period, wealth management business of the Bank maintained steady development. The Bank issued 2,020 wealth management products with sales of RMB1,887.2 billion. Percentage of balance of open-end wealth management products was 44%.

### (II) Performance and profitability of asset securitisation during the reporting period

During the reporting period, the Bank participated in the issuance of nine corporate assets securitisation products with a total issue size of RMB10.047 billion as financial advisor or distribution agency. The Bank acted as the co-lead underwriter of one credit asset project issued by another bank with an issue size of RMB6.018 billion. Revenue of intermediary business in RMB from the securitisation of corporate assets amounted to RMB27.3650 million.

### (III) Performance and profitability of custody business during the reporting period

During the reporting period, the Bank vigorously conducted various custody businesses including securities investment funds, fund accounts, asset management plans for securities firms, trust plans, insurance capital/asset management plans, banking and wealth management products, private investment funds, RQDII/QDII products, futures asset management plans and independent insurance supervisory business.

As at the end of the reporting period, the total assets under custodian of the Bank amounted to RMB1,651.1 billion. During the reporting period, custody fee income amounted to RMB1.017 billion.

### (IV) Performance and profitability of trust business during the reporting period

During the reporting period, the Bank did not conduct any trust business.

### (V) Performance and profitability of financial planning business during the reporting period

The Bank allocated products and services for financial planning based on the objectives of wealth creation, appreciation, operation and preservation. In accordance with the demands of the customers, the Bank offered consumption loans, personalised wealth management products, cross-border service, advisory service for insurance planning and value-added services in such areas like healthcare and lifestyle. Apart from the active marketing of the BoS Wealth Management brand, it also enriched services for mid-to-high-end customers in respect of healthcare, culture, travelling and food.

For details, please refer to the section headed “Wealth management” of retail banking under “Business Overview”.

## VI. Development of new businesses during the reporting period

During the reporting period, the Bank further improved its product innovation and system development with focuses on corporate banking, retail banking, assets management, online channels and online direct banking businesses. Major development of each business segment is as follows:

**For corporate banking**, the Bank primarily introduced new products for key areas including transaction and investment banking. Four new settlement products, namely reverse factoring, cross- bank capital pooling 2.0, payment collection of nominal accounts with barcode, easy receipt, were introduced for transaction banking. For investment banking, the Bank completed four new businesses which were the first order of the same kind, including the first debt financing backed by account receivables of Beijing Financial Assets Exchange, the first launch of CMBS product, securitisation of supply chain assets and securitisation of factoring assets. Substantially all of the major assets were covered.

**For retail banking**, the Bank focused on consumer finance and continued to promote restructuring of retail assets. Firstly, the Bank introduced Xinyidai products for provident funds targeting payers in Shanghai, Suzhou and Hangzhou. As at the end of the reporting period, credit facilities granted increased by RMB200 million. Secondly, the Bank continued to promote credit pre-approval for quality employees of enterprises on the white list, and facilitated electronic banking contract signing and credit utilization of customers on the white list, which further enhanced customers' experience.

**For assets management**, the Bank pushed forward the transformation of products from close-end model to open-end model and successfully launched three personal non-principal-guaranteed periodic open-end products. The Bank also officially issued the first net-worth products, laying the foundation for the development of net-worth wealth management products. The Bank continued to promote assets innovation and developed four major new products including investment in MOM interests. The Bank was named as the outstanding unit of direct financing instruments for wealth management and banking wealth management plans for two consecutive years.

**For online channels**, the Bank officially launched mobile banking 5.0 version. In response to customers' feedbacks and aiming to provide personalised services, the Bank launched three unique mobile banking versions, including "Smart Wealth" for wealth management customers, "Credit Card Enjoyment" for young consumers and "Good Life" for pension finance customers, which displayed different UI front pages, popular events, function package and product recommendations based on the habits and

preferences of customers. The Bank was the first in the industry to launch Quick Pass and QR code payment with differentiated and personalised services. The Bank won the Best Mobile Banking Award of Regional Commercial Bank for 2017 by CFCA and the "Good Life" mobile banking also won various awards.

**For online direct banking**, five major online products and services, including new payment, payment and settlement, wealth management, consumption loans and cross-border business were refined. In particular, the Bank launched China's first electronic co-branded card with Quick Pass function, and was one of the first batch of banks participating in the Electronic and Mobile Payment Convenience Demonstration Project.

## VII. Risks and risk management

### (I) Comprehensive risk management system

The Board of Directors of the Bank bears ultimate responsibility for risk management and is responsible for determining overall strategies as well as making important decisions for risk management. The Board of Directors performs risk management through its Risk Management Committee, Related-Party Transactions Committee and Audit Committee. The Board of Supervisors supervises the Board of Directors and the senior management and examines the financial activities of the Bank. The Supervision Committee under the Board of Supervisors is primarily responsible for monitoring and supervising the risk management implement of the Board of Directors and the senior management, and for evaluating the effectiveness of the Bank's comprehensive risk management. The senior management of the Bank, the highest level of executive power in risk management, is responsible for the supervision of risk management and internal control, including formulation and implementation of strategies and policies determined by the Board of Directors. The senior management is also responsible for reporting to the Board of Directors about overall risk management. Relevant special committees under the senior management, including the Risk Management Committee and the Asset and Liability Management Committee, are responsible for organising, coordinating, reviewing, determining and supervising various risk management tasks.

The Bank has established its risk management system of "Three Lines of Defence" through its organisational structure with accountability mechanism. The "First Line of Defence" is consisted of the business departments of the Head Office and the branches to execute front line risk management. The internal risk control departments serve as the "Second Line of Defence" to perform further risk management. The "Third Line of Defence" is consisted of audit and supervision departments to perform supervisory function. With clear division of responsibilities among the three lines of defence, the "First Line of Defence" is responsible for self-management of risks by promoting awareness and ability of risk prevention. The "Second Line of Defence" cooperates with the "First Line of Defence" to implement refined and differentiated risk

management while the "Third Line of Defence" conducts vertical audit and integrated management, so as to further enhance the Bank's ability in supervision and internal control. The system can effectively control risks at an early stage and strengthen the independence and effectiveness of the "Second Line of Defence" and "Third Line of Defence".

The Bank has established a comprehensive risk management system, in which risk management department is responsible for planning and coordination, basically covering the management of all risks, including credit, operational, market, liquidity, legal, reputation, strategic and information technology risks. In addition, risks of subsidiaries within the Group are managed under the integrated risk management framework. Management procedures and systems for all risks have been developed, including risk identification, assessment, measurement, supervision, report, mitigation and control. Risks of credit business are managed under a "Nine Stages" procedure.

During the reporting period, the Bank has run business within the framework of law and regulatory requirements and coped actively with external economic and policy changes. In the pursuit of dual improvement of risk management and risk operation, the Bank has refined the comprehensive risk management system and strengthened operational risk management with optimised management system and mechanism to effectively safeguard the transformation and development of the Bank. Firstly, the Bank has focused on enhancing specific control and all-process management of major aspects. With effective coordination of proactive withdrawal and risk alerts, the Bank has achieved significant results in recover and clean-up of non-performing assets through specific systems, so that the quality of assets has continued to improve. Secondly, the Bank has enhanced its operational risk management by improving attainment evaluation, performance assessment and accountability systems. It has also set up standard criteria for risk management of its branches and conducted specified inspection and random inspection covering major aspects of operational risk. Investigation on irregular activities of staff has also been strengthened so as to defend the bottom line of internal control. Thirdly, according to the trend of global capital market and the development of cross-border business, interbank business and wealth management business in China, the Bank has developed and refined tools for risk measurement, limit management and stress tests to improve management of market risk and liquidity. Fourthly, the Bank has enhanced the consolidated risk management at the Group level by establishing unified risk appetite of the Group and differentiated risk management models for each subsidiary. Fifthly, the Bank has aimed at enhancing its quantitative risk management by promoting development and application of Big Data of risk so as to accelerate the optimisation of various risk management tools. The Bank has completed the internal assessment and verification for retail banking, improved non-retail rating model and application and upgraded the new information system of credit risk management. The information systems of operational risk and compliance and internal control was online implementing. The Bank has also launched a project to construct the internal modelling of market risk and a unified system



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covering the frontline, middle-office and back office of the treasury business. Sixthly, the Bank has further refined its management mechanisms including law compliance, information technology, reputation risk, and management process of internal control.

During the reporting period, the Bank has been named as the "2017 Excellent Competitive Bank in Risk Management" in the "Ninth Excellent Competitive Financial Conference of 2017" held by Chinese Business Journal.

### (II) Credit risk management

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Bank. The Bank's credit risk arises mainly from credit business and treasury business such as credit securities investments.

In strict compliance with the relevant regulatory requirements of the CBRC on credit risk management, the Bank implements the pre-determined strategic target and unified risk appetite, and has developed policies and procedures regarding the identification, assessment, measurement, monitoring, mitigation, control and reporting of credit risk. The Bank is dedicated to enhance its overall credit risk management through various measures, including executing credit policies with unified risk appetite, establishing approval authority for credit business and management system of credit extension, standardising procedures of credit approval and operation, upgrading risk management tools and management information system, developing management systems for credit monitoring, alert and withdrawal, tightening standards of securities and pledges and other risk mitigating measures.

During the reporting period, the Bank has proactively responded to the complex external situation through strengthening control of bottom-line, compliance and risk operation based on its strategies in order to support its business transformation. First, according to the structural changes of market and business, the Bank has optimised its risk policies, defined clear risk appetite and bottom line and strengthened risk pricing management to balance its risk and revenue. Second, the Bank has further issued guidelines on credit granting with clear targets of credit structure adjustment. With the application of measures such as controlling total amount of loans, positive and negative lists and white name list management, the Bank has imposed strict control on risky areas and restricted loans provided to industries with overcapacity and to customers outside the province, loans secured cross-guarantee and credit to enterprises clusters. Third, the Bank has carried out the principle of substance over form, and unified its management standards of approval criteria, limit control, approval authority and the "three checks" for both credit and non-credit and both on- and off-sheet businesses. Fourth, the Bank has enhanced the risk management and control of retail credit platform by formulating risk management guidance, specifying approval criteria, identifying risk data standard and developing business verification model. Fifth, the Bank has established

standard requirement and control model for credit exposure of large amount and a highly efficient risk intervention mechanism to ensure strict enforcement of active withdrawal regarding customers with risks. Sixth, the Bank developed a regulated operational system for post-loan management to improve the execution efficiency for key procedures. Risk alert has been reinforced through the development of new system functions in order to lay solid foundation for credit management. Seventh, the Bank has enhanced the development of special business centre, strengthened the recover ability, implemented various approaches and measures to recover non-performing assets with focus on guiding the collection and disposal regarding key projects and branches. Eighth, the Bank has optimised risk measurement tools, improved data quality and system function and promoted the application of non-retail rating in management decisions regarding customer approval/withdrawal, credit/authority management, risk pricing, economic capital and stress tests. The verification for retail rating cards and risk pooling model before commission has been completed to provide support for business marketing, post-disbursement monitoring and collection management. Statistical analysis on risk capital occupancy has been conducted in terms of business lines and institutions to enhance capital utilisation efficiency and risk operation and management. Ninth, the Bank has reinforced the fundamental management of credit by setting attainment standards for risk management function of different business units. Assessment and reporting systems for presidents of branches in charge of risk management has been improved by providing relevant incentives and constraints, ensuring the frontline units to fulfil their responsibilities and maintain the quality of business development.

### (III) Market risk management

Market risk refers to the risk of loss for the on- and off- balance sheet businesses of the Bank arising from adverse changes in market prices, including interest rates, exchange rates, commodity prices, stock prices and other prices. The market risk of the Bank primarily includes interest rate and exchange rate risks arising from the asset and liability businesses and products traded in market.

The market risk management of the Bank refers to the identification, measurement, monitoring and control of market risk. The Bank continues to enhance its market risk management framework in accordance with market changes and industrial standards for quality management, and monitors market risk on trading portfolios and bank accounts. The Bank identifies, measures and manages the market risk by using various risk monitoring tools including the VaR analysis, duration analysis, gap analysis, position analysis, sensitivity analysis, scenarios analysis and stress tests. Based on the market condition, the Bank determines its market risk limits in respect of positions, sensitivity and stop-loss indicators and monitors the application of these risk limits. By undergoing review procedures on new products and complex businesses, the Bank ensures that market risk of new businesses can be identified and assessed as early as possible.

During the reporting period, the Bank adjusted the formula of margin calculation for trading derivatives and financial products with customers, by changing fixed margin rates to variable margin rates according to market price volatility. The Bank started the project of the IMA and the construction of STP system, which can support FO, MO and BO of financial market business and market risk management. Considering good experiences from other financial institutions and specific situations in the Bank, the project set up the management improvement goals and requirements for system construction. With these efforts, the Bank aimed to develop market risk system, including policy system, calculating system, IT system, and ultimately to upgrade the Bank's overall management of financial market business and market risks.

### 1. Interest rate risk management

Interest rate risk refers to the risk of loss in overall revenue and market value of financial instruments and positions due to the adverse changes in key factors such as interest rate and maturity mismatch.

#### (1) Trading portfolios

The Bank's interest rate risk management for trading portfolios covers relevant business lines, product types and trading strategies. Under the limit system of overall stop-loss and VaR, it sets limits on positions, interest sensitivity and stop-losses of the products with interest rate risks. Risks are monitored on a daily basis to ensure business running within the limits. During the reporting period, the market interest rates are in the rising trend and the Bank's trading accounts business was strictly in the risk limits. The risk level was controllable.

#### (2) Bank accounts

The Bank manages its interest rate risk of bank accounts based on repricing gap, net interest income sensitivity and net assets sensitivity, identified and measured through scenario simulation and stress testing. According to the overall limits on repricing gap, net interest income sensitivity and net assets sensitivity, the Bank sets separate limits for each business line and ensures the implementation of the overall limits. During the reporting period, indicators of interest rate risk limits of bank accounts were maintained within the management target.

### 2. Exchange rate risk management

The Bank's exchange rate risks mainly comprise risks arising from foreign currency portfolios within proprietary investments in debt securities and foreign exchange deposits and placements and other foreign currency businesses, as well as risks from the currency mismatch of loans and deposits. The Bank's businesses are primarily denominated in RMB, and the percentage of foreign currency exposure in the total assets is not significant. The Bank manages the exchange rate risks mainly by closely monitoring the limit of the currency exposures.

#### (1) Trading portfolios

The Bank's exchange rate risk management for trading portfolios covers all proprietary investments and businesses conducted on behalf of customers. It sets exposure limits, sensitivity limits and stop-loss limits and monitors such limits on a daily basis. During the reporting period, all indicators regarding the exchange rate for trading portfolios were within the limited range.

#### (2) Bank accounts

The Bank has set up accumulative currency exposure limits for the exchange rate risk management of bank accounts. It adopts analysis methods such as exposure analysis and stress test and maintains regular inspection to strictly control the overall exchange risk within acceptable range. During the reporting period, the exchange rate risk of bank accounts was controlled within the management target.

### (IV) Operational risk management

Operational risk refers to the risks resulting from inadequate or defected internal control procedures, from human or information system related factors and from external events. Possible losses resulted from operational risks faced by the Bank mainly include seven categories: internal fraud, external fraud, incidents involving employment system and workplace safety, incidents about customers, products and business activities, damage to physical assets, business interruption and malfunction of information technology system and issues associated with execution, settlement and process management.

The Bank strives to improve its operational risk management system. It has established an operational risk management structure comprising the "three lines of defence" and has promoted the application of management tools such as operational risk and control self-assessment (RCSA), key risk indicators of operational risk (KRI), and operational risk loss data collection (LDC), to enhance operational risk management abilities in terms of identification, assessment, measurement, monitoring, control/mitigation and reporting. The Bank has established an operational risk reporting system covering the whole company and launched coordinated management through the risk management information system. Investigation on risks of key aspects has been conducted to further improve the internal control measures and to avoid occurrence of operational risk events. The Bank also pays high attention on professional knowledge, case prevention awareness, professional ethics and compliance awareness of its employees. The Bank has further strengthened the implement of rotation and resignation of staff in key positions and heavily punishes violation of rules, in order to prevent internal and external frauds.

During the reporting period, the Bank has further improved its operational risk management system in respect of the "four targets", namely execution, control, synergy and support for operational risk management. According to SA of operational risk, the bank has launched the guidelines of operational risk



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management, matrix management rules, management measures for self-assessment of operational risk and control, administrative rules for key risk indicators and management rules for the collection of loss data. The Bank has set up an assessment system which consists of examination, performance assessment and penalty and carried out special investigation, like "100-day" and "Thunderbolt", to strengthen the role of head office by implementing incentive, constraint and inspection to branches. In order to promote management requirements, the Bank has organised series activities, such as knowledge competitions and election of the best practice cases from branches. The Bank also wrote the Operational Risk Management Handbook containing unified procedure checklists and key processes. Risk control matrix was established with key risk indicators to support standardised management. The Bank has built up an operational risk and internal control system as an integrated system platform consisting of operational risk management, internal control and management, compliance management, violation avoid management, rectification of identified defects and off-site monitoring. A seal management system was set up and specified key seals were managed through the seal controller. In addition, to further standardise the operation, the Bank refined its standard business procedure, established an operational platform, launched the monitoring platform for operational risk and constructed operational risk control model. Key information about business managing system was made clear. Backup plan of the primary IT systems and operation guideline for emergency situation have been updated.

### (V) Liquidity risk management

Liquidity risk refers to the risk of failure of a bank to satisfy customers' needs such as payment of due debts and provision of new loans as well as other reasonable financing needs or failure to satisfy these needs at reasonable costs.

The Bank aims to secure adequate liquidity through centralised management with scientific contingency plans and preventive measures and in a safety-first principle. As such, the Bank has carried out sufficient identification, efficient measurement, continuous monitoring and effective control for liquidity risks of its businesses in order to enhance the utility efficiency of funds while fulfilling the liquidity requirement of the Bank. The Bank has studied and analysed the market trends of interest rates and monetary policies in order to achieve better, accurate cash flow measurement and scientific reasonable funding arrangements. The Bank has fully utilised instruments such as FTP to flexibly adjust the structure and refine the allocation of assets and liabilities with regard to their maturity terms. The Bank has also increased the core asset-liability ratio, obtained sufficient market financing and promoted the stable growth of deposits in order to maintain multi-layer liquidity support, and thus to fulfil the liquidity demand of the Bank. In addition, liquidity risk evaluations and control of new businesses and products have been strengthened. Liquidity risk stress tests have been conducted regularly and the liquidity risk alert mechanism and contingency plans also improved. A cash

position management system is established to better support the liquidity risk management system.

During the reporting period, the Bank has further optimised its internal liquidity management. According to the latest liquidity risk management policies released by authorities, the Bank has adjusted its relevant internal liquidity risk management procedures. The Bank has also further enhanced its management to key indicators which was specifically concerned by authorities and has tightened limits because of internal forecasting of market liquidity changes. Liquidity risk indicators has been made one of the factors in KPI evaluation in order to strengthen liquidity managing, and to keep close track on the liquidity risk during the running of business. The Bank kept a monthly frequency to analyse and forecast market change, which was an essential point of consideration to the business plan. Moreover, the bank monitored on a daily basis its liquidity risk, including market money supply, capital inflow and outflow of each business line, cash flow gap, availability of bonds financing and liquidity support.

As at the end of the reporting period, the liquidity coverage ratio of the Group was as follows:

Unit: RMB'000

Good-quality liquidity assets	Net cash outflow in next 30 days	Liquidity coverage ratio
188,772,529.30	133,390,875.90	141.52%

### (VI) Legal risk management

Legal risk refers to possibility of risk exposure resulting from operations not compliant with legal requirements or external legal events, including but not limited to the following risks: the contract signed by a commercial bank may be revoked or declared void according to the law due to violation of the law; a commercial bank may be sued or brought into arbitration according to the law due to the breach of contract, tort or other reasons, and may be liable for compensation; a commercial bank may bear administrative or criminal liability according to the law due to violation of the law pertaining to its business activities; a commercial bank may be subject to legal sanction and may suffer from material financial loss or reputation damage if it fails to comply with laws and regulations.

The Bank adopts centralised management with clear division of responsibilities and stratified control to ensure effective management and control of legal risk.

During the reporting period, the Bank has attached high importance to legal risk management and improved legal risk management structure and working mechanisms including legal advisor management, contract management, litigation management and legal risk management of new products in order to enhance the legal service efficiency and to identify, assess, monitor and solve legal risks in respect of the development of banking business.

### (VII) Reputation risk management

Reputation risk refers to the risk of negative comments on a commercial bank from stakeholders caused by the operation, management or other acts of the commercial bank or other external events.

The Bank fulfils various requirements of the regulatory authorities on reputation risk management concerning commercial banks, through the establishment of a reasonable, organised and efficient reputation risk management system. By optimising its reputation risk management mechanism and properly handling incidents related to reputation, the Bank has enhanced its ability to prevent and cope with reputation risks comprehensively and maintained a positive social image.

During the reporting period, the Bank has initiated inspection and investigation on reputation risks in order to identify and mitigate potential reputation risks of various kinds in a timely manner. It has also strengthened management on public opinion through monitoring, mitigating and solving all kinds of public opinion risks in a timely manner. Reputation management training was held to enhance the awareness of reputation risk prevention and ensure fulfilment of responsibilities. The Bank has also promoted research and management of new media and explored new promotion approach by coordinating with both traditional and new media in order to build a positive social image.

### (VIII) Strategic risk

Strategic risk mainly arises from uncertainty relating to the general losses of a commercial bank during the course of operation and development.

The Bank has strengthened its strategic management in order to effectively identify and control strategic risk. During the reporting period, pursuant to actual situation and changes in operation, the Bank has started the compilation of the Three-Year Development Plan (2018-2020) where internal and external situations were objectively analysed and strategic positioning and target were scientifically appraised to ensure a scientific, forward-looking and synergetic development. The Bank also improved its strategic plans regarding the Head Office, branches and subsidiaries in order to divide and implement strategies effectively. Meanwhile, dynamic progress supervision and a regular assessment mechanism and procedure were established to ensure the comprehensive implementation and proper execution of the plan.

### (IX) Information technology risk

Information technology risk refers to the operational, legal and reputation risks caused by natural factors, human factors, technological loopholes and management defects during the application of information technology in the operation of banks.

The Bank implements information technology risk management pursuant to its strategic goals and regulatory requirements. Through optimising the identification and assessment of information technology risks, the Bank has strengthened its management and control of internet security, development process of applications and technology operation. The Bank has also improved its monitoring of information technology risk indicators, strengthened the early warning of changes of key risk indicators and the supporting management and control measures, and formulated management regulations on information technology risk monitoring. In addition, by enhancing the management of engagement, evaluation and removal of outsourced information technology suppliers, the information technology outsourcing risk management has been improved, and the Bank's management over development has been consolidated.

During the reporting period, the overall operation of information system of the Bank was stable. Key information systems maintained normal operation during the year with no unexpected outage occurred. Regulatory rating for the Bank's information technology was 2B. The Bank developed a big data platform for operation and maintenance to enhance intelligence level of systematic operation and maintenance. The Bank also accelerated its development of technology infrastructure for the three centers in two locations. Key application systems were simultaneously applied in the technology centers in Zhangjiang and Shiquan, which significantly enhanced the overall automatic batch processing capacity of information system. The Bank improved its planning and development of technology system to promote further integration and application of technology in the business operation. Management measures were implemented pursuant to the technology requirement, and comprehensive regulations and policies for information technology management were promulgated. Various outsourcing management rules were issued to strengthen outsourcing management. The Bank continued to improve the control over information security technology. Authority management of documents and internet access control was fully put in place. Penetration test and security scan for key applications was conducted. Desktop virtualisation was required for outsourced development personnel. The Bank also maintained ongoing categorised protection of information system and proactively managed to cover different unexpected risk. With these efforts, the general prevention and control of information technology risks of the Bank has been upgraded comprehensively.

### (X) Country risk

Country risk is the risk incurred to a bank arising from the inability or refusal of a borrower or debtor in a particular country or region to repay bank debt, losses suffered by the Bank or its commercial presence in a particular country or region, or other losses due to economic, political or social changes or events in such particular country or region. Country risk may arise due to deteriorated economy, political and social instability, nationalisation or requisition of assets, refusal of repayment of external debts by the government, foreign exchange control and currency devaluation in a particular country or region.

## Discussion and Analysis of Operation

The Bank has brought country risk management into its comprehensive risk management system. During the reporting period, the Bank improved its internal country risk rating methods and evaluated the level of country risk based on factors such as external rating, economic condition and activity level of foreign trade. Country risk limits were set up and provisions were made in accordance with regulatory from authorities. The Bank's exposure to country risk was relatively small and the level of country risk was low. The Bank has made sufficient provisions for country risks in accordance with authorities' regulatory.

### (XI) Implementation of new capital accord

The new capital accord office of the Bank is in charge of the centralised management of the relevant projects under the new capital accord of the Bank. In compliance with the regulations and pursuant to the changes in business condition, the new capital accord office coordinates the planning and implementation of such projects, timely develops and refines the necessary risk measurement model, promotes and applies the achievements of the new capital accord during the course of business operation in order to enhance the Bank's risk managing and profitability.

During the reporting period, the Bank has continued to apply the achievements of the new capital accord and further improved its refined risk management capability. Application of non-retail internal rating was strengthened, rating system improved and application of rating results implemented in management decisions, including approval/withdrawal of customers, credit policies, authorisation management, risk pricing, economic capital and stress tests. Verification of retail rating cards and risk pooling model before commission were completed to effectively enhance the accuracy and compliance of the rating model and to provide support for business marketing, post-loan risk monitoring and chasing debt management. The Bank has improved and optimised the RAROC risk measurement system which became the fundamental of the decision for the approval of business application, post-disbursement sales, monitoring and analysis and classified customer management with RAROC pricing calculation. The Bank promoted the development of credit risk weighted assets measurement system to further improve RWA data quality and automation level. Capital usage by businesses, departments and segments were analysed in different perspective, providing

reasonable suggestions to improve capital use efficiency. Pursuant to IFRS 9 requirements, the Bank has established the measurement system for assets impairment and developed assessment systems for assets impairment and non-retail debts. In order to meet the requirement of SA of operational risk, the Bank has optimised its operational risk management mechanism and related systems by formulating unified, standard and refined operational risk identification, assessment and monitoring management tools, as well as developed operational risk and internal control and compliance management system. The Bank has also started the IMA project of market risk and STP system which can support financial market business for FO, MO and . The aim of the project was to enhance the overall management capability of all processes in respect of financial market trading, market risk management, automatic settlement and accounting, and thus to meet the requirements of the IMA from Basel.

## VIII. Related-Party Transactions

The Bank strictly complies with the regulations and requirements of CBRC, CSRC and SSE and continues to improve its management system of related-party transactions and promote standardisation of the management procedure of related-party transactions in its daily operation and management. According to the regulatory provisions and requirements, the Bank has formulated lists of related parties as requested by CBRC, CSRC and SSE, respectively. The lists are updated timely according to the actual situation and changes of associated corporations and associated natural persons.

During the reporting period, the related-party transactions of the Bank were entered into based on normal commercial terms at transaction prices no more favourable than those offered to non-related parties with similar credit rating, and the prices of related-party transactions were based on fairness principle. No transfers of interest and actions that may compromise the interests of shareholders were identified. The related-party transactions of the Bank were conducted in the ordinary course of business and did not have material impacts on the financial position and operating results of the Bank.

For details, please see the notes for related-party transactions in the financial statements.

(I) During the reporting period, the Board of Directors of the Bank reviewed the following related-party transactions which accounted for more than 1% of the net capital as at the end of last quarter and represented more than 1% but less than 5% of the latest audited net assets of the Bank and made disclosures in a timely manner:

Name of related party	Credit amount	Description	Announcement No.
Shanghai International Port (Group) Co., Ltd.	RMB2,000,000,000	Underwriting and holding of ultra short-term financing bonds	2017-038
Zhong Chuan Finance Co., Ltd.	RMB1,700,000,000, USD50,000,000	Inter-bank borrowing, bill buyout and foreign exchange trading	2017-038
CSSC Investment Development Co., Ltd.	RMB3,000,000,000	Structural financing	2017-046
EverDisplay Optronics (Shanghai) Limited	RMB2,472,000,000	Syndicated loans and issue of import letter of credit for the 6th AMOLED project of Everdisplay Optronics, and future currency settlement and sales	2017-056
Shanghai Huali Integrated Circuit Corporation	RMB2,000,000,000	Syndicated loans and issue of import letter of credits for the construction of the 12-inch advanced production line of Huali Integrated Circuit	2017-056

(II) Performance of related-party transactions included in the estimation of annual ordinary related-party transactions during the reporting period is set out as follows:

Counterparty of related-party transaction	Nature of transaction	Pricing	Estimated annual cap	Actual amount
Shanghai Commercial Bank Limited	Inter-bank credit	Based on normal commercial terms and no more favourable than business with non-related parties with the same credit rating	RMB2,000,000,000	RMB900,000,000
Banco Santander, S.A.			RMB5,500,000,000	RMB4,560,000,000
Fortune Auto Finance Co., Ltd.			RMB1,300,000,000	RMB800,000,000
E-Capital Transfer Co., Ltd	Gold lending		RMB1,000,000,000	RMB450,000,000
TCL Commercial Factoring (Shenzhen) Co., Ltd.	Refactoring		RMB1,000,000,000	RMB200,000,000

(III) The Bank has made timely disclosure of the following related-party transaction which did not meet standards of material related-party transaction but was subject to the timely disclosure requirement of CSRC and SSE:

Name of related party	Credit amount	Description	Announcement No.
Shanghai ShangCheng Consumer Finance Corporation Limited	RMB1,100,000,000	Inter-bank credit	2017-38

## Major Events

Proposal of profit distribution for ordinary shares or capitalisation of capital reserve

Undertakings of the Bank's de facto controller, shareholders, related parties, acquiring parties, the Bank and other relevant parties during the reporting period or subsisting to the reporting period

Appropriation of funds and settlement

Changes and correction of accounting policy, estimates and significant accounting mistakes and reasons and effects

Appointment or dismissal of accounting firm

Major litigation and arbitration

Investigation, administrative penalty and order of rectification against the Bank and its directors, supervisors, senior management and largest shareholder

Integrity of the Bank and its largest shareholder during the reporting period

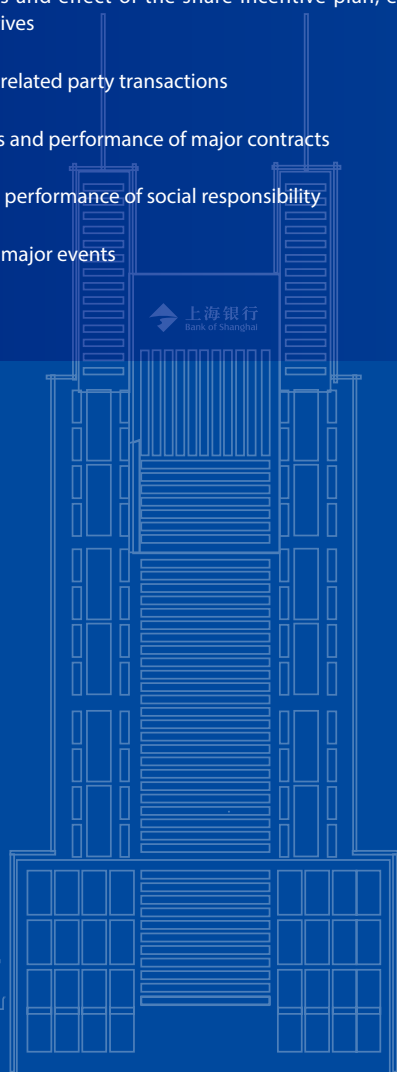
Details and effect of the share incentive plan, employee share option plan or other employee incentives

Major related party transactions

Details and performance of major contracts

Active performance of social responsibility

Other major events



## I. Proposal of profit distribution for ordinary shares or capitalisation of capital reserve

### (I) Formulation, implementation or adjustment of cash dividend policy

In accordance with the Articles of Association, the Bank may distribute dividends in the form of cash or share and may distribute interim dividends. The Bank's profit distribution shall aim to provide reasonable investment return for investors under a sustainable and stable policy.

The Board of Directors of the Bank shall consider opinions of all relevant parties when formulating distribution plans. Independent Non-executive Directors shall give clear opinions on profit distribution plans. They may directly submit a profit distribution proposal based on the opinions of minority shareholders to the Board of Directors for consideration. A profit distribution plan shall be submitted to the shareholders' general meeting as a resolution for approval.

Before a specific cash dividend distribution plan is considered at the shareholders' general meeting, the Bank shall communicate and exchange opinions with shareholders, especially minority shareholders, through various channels to fully take into account their opinions and requests, and timely respond to their concerns.

The Bank may distribute dividends for any given profit-making year. Save for special circumstances, where the Bank records profit for a given year with accumulated retained earnings, and the normal working capital need of the Bank is satisfied, the Bank shall give priority to distribution of cash dividend. The profit to be distributed in form of cash per annum shall be no less than 10% of the profit after tax for such accounting year. The aforesaid special circumstances refer to the following situations:

1. when the Bank's capital adequacy ratio falls below the regulatory standard, or is expected to fall below the regulatory standard after distribution of cash dividend for the given year;
2. when the Bank's reserves fail to meet the requirement of relevant financial authorities;
3. where dividend distribution is otherwise restricted by laws and regulations; or
4. other circumstances that might affect the long-term interest of the shareholders in the Bank's belief.

If the Bank has recorded profits in the previous accounting year but the Board of Directors has not proposed any cash dividend distribution after the end of the previous accounting year, the reasons thereof and the application of undistributed funds retained by the Bank shall be explained in details in its periodic

reports and the Independent Non-executive Directors shall give an independent non-executive opinion in such regard.

In the event that adjustments are required to be made to the Bank's profit distribution policy due to the needs of operation and long term development of the Bank, the adjusted profit distribution policy must comply with the applicable requirement of the regulatory authorities of the places where the shares of the Bank are listed. Any resolution regarding adjustments to the profit distribution policy shall be reviewed by the Board of Directors after taking into account of the opinions of the Independent Non-executive Directors and the Board of Supervisors, and then proposed to the shareholders' general meeting of the Bank for approval by the shareholders. Any resolution regarding the adjustments to the Bank's cash dividend policy shall be approved by more than two-thirds of the voting shareholders attending the shareholders' general meeting of the Bank.

### (II) Profit distribution proposal for 2017

According to the statutory financial statements for 2017 of the Bank audited by KPMG Huazhen, the net profit of the Bank amounted to RMB15,114,179,000. The profit distribution proposal for 2017 is as follows:

1. 10% of the profit after tax, amounting to RMB1,511,418,000 to be appropriated to the statutory surplus reserve;
2. no appropriations to the provision for impairment loss and general reserve are required as the balances of the provision and reserve satisfied the requirement of the Regulations of the Provision of Financial Institutions (No.20[2012] of the Ministry of Finance);
3. 20% of the profit after tax, amounting to RMB3,022,836,000, to be appropriated to the discretionary surplus reserve;
4. on the basis of the total share capital of 7,805,785,000 shares as at the end of 2017, a cash dividend of RMB5.00 (tax inclusive) for every 10 shares, RMB3,902,892,500 in aggregate and an increase of 30% when compared with the cash dividend for 2016, and four bonus shares for every 10 shares by way of capitalisation of capital reserve, RMB3,122,314,000 in aggregate, to be distributed to all shareholders. The registered capital of the Bank will increase from RMB7,805,785,000 to RMB10,928,099,000 after the capitalisation of capital reserve;
5. balance of retained earnings of RMB6,677,032,500 to be brought forward to next year.

The Bank is speeding up its reform and development. The retained earnings will be mainly used to facilitate the strategic reform and development as well as the adjustment of the business structure of the Bank so as to enhance its risk resistance and to meet the capital adequacy requirement. The primary objectives of the proposed cash distribution plan of the Bank are as follows: 1) fulfilling the requirement or guidance regarding cash dividend distribution of regulatory authorities; 2) ensuring continuous supplement

## Major Events

of internal capital, and facilitating the sustainable and sound development of banking business through proper appropriation of retained earnings to supplement core tier-1 capital; 3) enabling investors to share the operating results of the Bank and receive reasonable investment return, and providing shareholders with sustainable, stable and reasonable investment return while maintaining a solid and sustainable dividend distribution policy, given that the profitability and capital adequacy ratio satisfy the Bank's needs for ongoing operation and long-term development.

All Independent Non-executive Directors of the Bank considered that the proposed profit distribution plan for 2017 was in line with the prudent and sustainable dividend policy. It can meet the capital requirement for on-going operation and long term development of the Bank and the needs of investors to share the operating results

of the Bank and to receive reasonable investment returns. They have given consent to the proposal and have agreed to submit the proposal to the shareholders' general meeting of the Bank for approval.

The formulation and implementation of the cash dividend policy of the Bank are compliance with the Articles of Association of the Bank and resolutions of shareholders' general meeting. The basis and proportion of dividend distribution are clearly defined. The decision making process and system are well determined. Minority shareholders can express their views and demands by attending shareholders' general meeting to vote and raise questions and proposals about the operation of the Bank so as to safeguard their legal rights. The cash dividend of the Bank for 2017 increased by 30% when compared with that for 2016.

### (III) Plans or proposals of dividend distribution for ordinary shares and capitalisation of capital reserve for the last three years of the Bank

Unit: RMB'000

Year of distribution	Number of bonus shares per 10 shares (share)	Dividend per 10 shares (RMB, tax inclusive)	Number of scrip shares per 10 shares (share)	Total amount of cash dividend (tax inclusive)	Net profit attributable to ordinary shareholders of the Bank in the consolidated financial statements for the year during which dividend was distributed	Percentage of the net profit attributable to ordinary shareholders of the Bank in the consolidated financial statements
2017	—	5	4	3,902,892.5	15,328,499	25.46%
2016	—	5	3	3,002,225	14,308,265	20.98%
2015	—	0	—	0	13,002,367	0.00%

## II. Undertakings of the Bank's de facto controller, shareholders, related parties, acquiring parties, the Bank and other relevant parties during the reporting period or subsisting to the reporting period

Nature	Type	Undertaker	Description of undertakings	Date and duration	Whether there is time limit of performance
Undertakings relating to the initial public offering	Restriction on trading of shares	Shanghai Alliance Investment Ltd. ("Shanghai Alliance")	Within 36 months after the date of listing of A shares of the Bank on the stock exchange, Shanghai Alliance shall not transfer or entrust others to manage the existing shares of the Bank held by it directly or indirectly before the offering, or procure the Bank to repurchase such shares. If Shanghai Alliance intends to reduce its shareholding in the Bank within two years after the expiry of the lock-up period, the number of shares disposed of per year shall be no more than 10% of its shareholding.	From 16 November 2016 to 15 November 2019	Yes



Nature	Type	Undertaker	Description of undertakings	Date and duration	Whether there is time limit of performance
Undertakings relating to the initial public offering	Restriction on trading of shares	Banco Santander, S.A. ("Santander")	Within three years after the date of initial public offering and listing of A shares of the Bank on the stock exchange, Santander shall not procure any transfer of the existing shares of the Bank held by it before the initial public offering or entrustment of third party for the exercise of any voting rights attached to the shares held by it, and it shall not sell back such shares to the Bank. If Santander reduces its shareholding in the Bank within two years after the expiry of the lock-up period, the selling price shall be no less than the offering price of the initial public offering or the net assets per share stated in the latest audited consolidated financial statements of Bank of Shanghai, whichever is lower. No transfer of shares subscribed under the fifth issuance of new shares of the Bank shall be effected within five years after the completion of change of business registration of the Bank.	From 16 November 2016 to 15 November 2019; from 10 June 2015 to 9 June 2020 (for the shares subscribed under the fifth issuance of new shares)	Yes
Undertakings relating to the initial public offering	Restriction on trading of shares	Shanghai International Port (Group) Co., Ltd. ("SIPG")	Within 36 months after the date of listing of A shares of the Bank on the stock exchange, SIPG shall not transfer or entrust others to manage the existing shares of the Bank held by it directly or indirectly before the offering, or procure the Bank to repurchase such shares. If SIPG intends to reduce its shareholding in the Bank within two years after the expiry of lock-up period, the number of shares disposed of per year shall be no more than 5% of its shareholding. No transfer of shares subscribed under the fifth issuance of new shares of the Bank shall be effected within five years after the completion of change of business registration of the Bank.	From 16 November 2016 to 15 November 2019; from 10 June 2015 to 9 June 2020 (for shares subscribed under the fifth issuance of new shares)	Yes
Undertakings relating to the initial public offering	Restriction on trading of shares	China Jianyin Investment Co., Ltd. ("China Jianyin Investment")	Within 36 months after the date of listing of A shares of the Bank on the stock exchange, China Jianyin Investment shall not transfer or entrust others to manage the existing shares of the Bank held by it directly or indirectly before the offering, or procure the Bank to repurchase such shares. If China Jianyin Investment Co., Ltd. fails to comply with its undertaking relating to the reduction of shareholding, any gain from the disposal of its shares shall be vested to the Bank. If China Jianyin Investment Co., Ltd. fails to transfer the gains from the irregular disposal of shares to the Bank, the Bank may withhold the cash dividends payable to China Jianyin Investment in an amount equal to the gains from such irregular disposal of shares.	From 16 November 2016 to 15 November 2019	Yes
Undertakings relating to the initial public offering	Restriction on trading of shares	Shipbuilding International Trading Co., Ltd., TCL Corporation, Shanghai Commercial Bank Limited, Shanghai Huangpu National Assets Company, Shanghai Huixin Investment Co., Ltd. and Citic Guoan Co., Ltd.	Within 36 months after the date of listing of A shares of the Bank on the stock exchange, none of them shall transfer or entrust others to manage the existing shares of the Bank held by them directly or indirectly before the offering, or procure the Bank to repurchase such shares.	From 16 November 2016 to 15 November 2019	Yes
Undertakings relating to the initial public offering	Restriction on trading of shares	Shanghai Xuhui Venture Capital Co., Ltd., and Shanghai Keerun Industry Ltd.	No shares transferred from any third party shall be transferred or entrusted to others to manage, or repurchased by the Bank within 36 months from the date on which the transfer is registered in the register of members of the Bank.	36 months since the date of share transfer	Yes



## Major Events

Nature	Type	Undertaker	Description of undertakings	Date and duration	Whether there is time limit of performance
Undertakings relating to the initial public offering	Restriction on trading of shares	Commercial Aircraft Corporation of China, Ltd., Shanghai Minhang Assets Investment Management, Ltd., Shanghai Songjiang Town Construction Investment Development Co., Ltd., Shenzhen LvgenReal Estate Development Co., Ltd., Shanghai Zhenxing Grain & Oil Company, Shanghai Yangpu Grain & Oil Foodstuff Co., Ltd., technical service department of Shanghai Jiayi Repair Company and Shanghai Nansheng China & Foreign Enterprise Elaborate Industry Co., Ltd.	New shares issued under the fifth capital increase and share issuance of the Bank shall be locked up for 36 months if the period between the date of the change in business registration of the Bank and the date of the prospectus does not exceed 12 months, or 12 months after the date of listing of A shares of the Bank if the period between the date of the change in business registration of the Bank and the date of prospectus exceeds 12 months.	From 16 November 2016 to 15 November 2017	Yes
Undertakings relating to the initial public offering	Restriction on trading of shares	Directors, Supervisors and senior management of the Bank	year shall be no more than 25% of the total shares held by him/her. No shares shall be transferred within six months from his/her departure from office.	2017, or the expiry date of the six-month period from his/her departure from office	Yes
Undertakings relating to the initial public offering	Restriction on trading of shares	Directors and senior management of the Bank	For any disposal of A shares held by him/her within two years after the expiry of the lock-up period, the selling price shall be no less than the offering price. If the closing price of the Bank's A shares is lower than the offering price for 20 consecutive trading days during the six months after the listing date of the Bank on the SSE, or the closing price as at the end of the six-month period after the listing date of the Bank is lower than the offering price, the lock-up period for the Bank's A shares shall be extended for six months automatically.	From 16 November 2016 to 15 May 2017	Yes
Undertakings relating to the initial public offering	Restriction on trading of shares	Individuals holding over 50,000 employee shares of the Bank	The lock-up period for share transfer shall be no less than three years since the date of listing of the Bank's shares on the stock exchange. Upon the expiry of such lock-up period, the number of shares that may be transferred per year and within five years shall be no more than 15% and 50% of the total shareholding of such individual, respectively.	From 16 November 2016 to 15 November 2024	Yes
Undertakings relating to the initial public offering	Stabilisation of share price	Bank of Shanghai Co., Ltd., shareholders with more than 5% equity interests, Directors and senior management of the Bank	Within three years after the listing of the Bank's A shares, if the closing price of the Bank's A shares remains lower than the latest audited net assets per share of the Bank (subject to adjustment for any change in the Bank's net assets or total number of shares due to distribution of dividends, issuance of bonus shares, capitalisation of capital reserve, stock split, additional issuance, placement or reduction of shares) for 20 consecutive trading days due to reasons other than force majeure, the Bank, and its shareholders with more than 5% equity interests, Directors and senior management and other related parties shall initiate relevant procedures and take related actions to stabilise the share price of the Bank to the extent as permitted by the applicable laws and regulations, subject to the listing requirement in respect of the distribution of shares of the Bank. For details of the stabilising measures, please refer to the relevant disclosures in the prospectus for the initial public offering of the Bank.	From 16 November 2016 to 15 November 2019	Yes

Nature	Type	Undertaker	Description of undertakings	Date and duration	Whether there is time limit of performance
Undertakings relating to the initial public offering	Non-competition undertaking letter	Shanghai Alliance Investment Ltd.	"The company does not engage in any banking businesses. Except for investment in the Bank of Shanghai, the company does not invest in any other banks in China. The company and its controlled enterprises will not directly or indirectly involve in any business or activity competing with the principal businesses of the Bank of Shanghai by any means (including but not limited to proprietorship, joint venture or holding of shares and other interests in another company or enterprise). In the event that the business opportunity obtained by the company or its controlled enterprises competes or may compete with the principal businesses of the Bank of Shanghai, it shall promptly notify the Bank of Shanghai and endeavour to refer such business opportunities to the Bank of Shanghai to ensure that the interests of the Bank of Shanghai and its shareholders as a whole would not be prejudiced. The company undertakes that the undertaking letter shall have the same legal effect on its controlled enterprises and guarantees that the undertaking letter is abided by all of its controlled enterprises. If the company fails to perform the above undertakings, it shall indemnify the Bank of Shanghai for losses arising therefrom in accordance with the final decision or judgement of the competent authorities."	Long-term	Yes
Undertakings relating to the initial public offering	Non-competition undertaking letter	Shanghai International Port (Group) Co., Ltd.	"(I) As long as the company is a holder of the shares of Bank of Shanghai and is regarded as a substantial shareholder or an associate of the substantial shareholder of Bank of Shanghai in accordance with the relevant laws, regulations and regulatory documents (including the Listing Rules), the company undertakes that it shall not directly engage in any commercial banking business. (II) Notwithstanding the undertaking stated in (I), the company and its controlled enterprises may invest in any enterprise operating commercial banking business in any manner. (III) The company shall treat all commercial banks invested by it in a fair manner, and shall not grant or offer any governmental approval, authorisation, permission or business opportunity for operation of commercial banking business obtained or may be obtained by it to any commercial banks. It shall not take advantage of its status as the substantial shareholder of the Bank of Shanghai or information obtained by virtual of such status to make any decisions or judgements in favour of other commercial banks invested by it which is unfavourable to the Bank of Shanghai, and shall use its best endeavour to prevent the occurrence of such circumstance. When exercising its rights as a shareholder of the Bank of Shanghai, the company shall exercise the shareholders' rights in the best interests of the Bank of Shanghai as if the Bank of Shanghai is the only commercial bank it invests in, and shall make business judgement for the best interests of the Bank of Shanghai without being affected by its investment in other commercial banks. The company undertakes that the undertaking letter shall have the same legal effect on its controlled enterprises and guarantees that the undertaking letter is abided by all of its controlled enterprises. If the company fails to perform the above undertakings, it shall indemnify the Bank of Shanghai for losses arising therefrom in accordance with the final decision or judgement of the competent authorities."	Long-term	Yes

## Major Events

Nature	Type	Undertaker	Description of undertakings	Date and duration	Whether there is time limit of performance
Undertakings relating to the initial public offering	Non-competition undertaking letter	China Jianyin Investment Co., Ltd.	"(I) As long as the company is a holder of the shares of Bank of Shanghai and is regarded as a substantial shareholder or an associate of the substantial shareholder of Bank of Shanghai in accordance with the relevant laws, regulations and regulatory documents (including the Listing Rules), the company undertakes that it shall not directly engage in any commercial banking business. (II) Notwithstanding the undertaking stated in (I), the company and its controlled enterprises may invest in any enterprise operating commercial banking business in any manner. (III) The company shall treat all commercial banks invested by it in a fair manner, and shall not grant or offer any governmental approval, authorisation, permission or business opportunity for the operation of commercial banking business obtained or may be obtained by it to any commercial banks. It shall not take advantage of its status as the substantial shareholder of the Bank of Shanghai or information obtained by virtue of such status to make any decisions or judgements in favour of other commercial banks invested by it which is unfavourable to the Bank of Shanghai, and shall use its best endeavour to prevent the occurrence of such circumstance. When exercising its rights as a shareholder of the Bank of Shanghai, the company shall exercise the shareholders' rights in the best interests of the Bank of Shanghai as if the Bank of Shanghai is the only commercial bank it invests in, and shall make business judgement for the best interests of the Bank of Shanghai without being affected by its investment in other commercial banks. The company undertakes that the undertaking letter shall have the same legal effect on its controlled enterprises and guarantees that the undertaking letter is abided by all of its controlled enterprises."	Long-term	Yes
Whether the undertakings are strictly and timely performed			Yes		
Reasons for the failure to timely honour the undertakings			N/A		
Follow-up plans for the failure to timely honour the undertakings			N/A		

### III. Appropriation of funds and settlement

During the reporting period, there was no appropriation of funds by any related parties of the Bank.

### IV. Changes and correction of accounting policy, estimates and significant accounting mistakes and reasons and effects

Please refer to Note III 30 to financial statements for details.

## V. Appointment or dismissal of accounting firm

The shareholders' general meeting of 2016 of the Bank has agreed to renew the engagement of KPMG Huazhen (Special General Partnership) as external audit firm of the Bank for 2017 at a total cost of RMB6.65 million, including RMB5.79 million for the audit of annual accounts of 2017, review of half-year accounts and other agreed assignments for the first and third quarters and RMB0.86 million for audit of internal control. The fee covers the tax, travelling, administrative, accommodation and reimbursement to be incurred in relation to the engagement.

KPMG Huazhen (Special General Partnership) has been providing audit services to the Bank for six consecutive years.

## VI. Major litigation and arbitration

During the reporting period, the Bank was not involved in any major litigation and arbitration.

As at the end of the reporting period, the Bank had a total of 27 litigations and arbitration pending for final ruling with a total amount of RMB1.122 billion with each case involving an amount of RMB10 million or above, including one pending litigation of which the Bank being the defendant involving an amount of RMB28 million. We expect that it would not have any material adverse effect on the Bank's financial and operating results.

## VII. Investigation, administrative penalty and order of rectification against the Bank and its directors, supervisors, senior management and largest shareholder

During the reporting period, none of the Bank and its Directors, Supervisors, senior management and the largest shareholder had become a subject of investigation by any competent authority, or had been subject to any compulsory measures imposed by the judicial body or commission for discipline inspection, handed over to the judicial body or subject to criminal charge, or became a subject of investigation or had been subject to administrative penalty or banning from entering the market or determined as an ineligible party by the CSRC, or had been subject to material administrative penalty imposed by other administrative authority and public censure by the stock exchange.

## VIII. Integrity of the Bank and its largest shareholder during the reporting period

During the reporting period, neither the Bank nor its largest shareholder had failed to perform any valid court judgement or any outstanding debts of relatively large amount which was overdue.

## IX. Details and effect of the share incentive plan, employee share option plan or other employee incentives

During the reporting period, the Bank did not have any share incentive plan, employee share option plan or other employee incentives.

## X. Major related party transactions

During the reporting period, the Bank did not have any major related party transaction of a value of more than 5% of its latest audited net assets.

## XI. Details and performance of major contracts

### (I) Custody, underwriting and leasing

During the reporting period, the Bank did not have any material custody, underwriting or leasing transaction that shall be disclosed.

## Major Events

### (II) Guarantee

During the reporting period, except for the financial guarantee business approved by the People's Bank of China and the CSRC, the Bank did not have any other major guarantee that shall be disclosed.

### (III) Management of cash and assets by third party

During the reporting period, the Bank had not entrusted any third party to manage cash and assets on behalf of the Bank.

## XII. Active performance of social responsibility

### (I) Targeted poverty alleviation plan

Pursuant to the objectives of the Decision on Poverty Alleviation of the Central Committee of the Communist Party of China and the State Council, the requirement of CSRC regarding poverty alleviation, the Bank restructured its organisation to facilitate the performance of social responsibilities. The Company proactively participated in the targeted poverty alleviation programme in cooperation with local party committee and government and carried out industrial, educational and other alleviation projects in poverty areas.

### (II) Summary of targeted poverty alleviation of the year

During the reporting period, the Bank allocated RMB5 million for targeted poverty alleviation work in rural area in Fengxian district, Shanghai to support the self-supported economic development project in underdeveloped villages. RMB310,500 was provided for the construction of public facilities in Nansheng village and Wangjiayu village in Fengxian district. The Company also paid friendly visits to underprivileged families. The Chengdu Branch of the Bank and Chongzhou BoS Rural Bank Co., Ltd., a subsidiary of the Bank, jointly established a "Targeted Poverty Alleviation" base in Tian Quan Community, Huai Yuan Town, Chongzhou, Sichuan province by making use of the "Sannong" financial products and technologies, which hired local poverty farmers to take part in the management and farming to increase the income of poverty families, and part of the income from the sales of crop was used as subsidies for poverty families. The Company introduced a new business model to facilitate cooperation between its branches and the local companies to support the economic development of rural areas. The Banking Department of the Bank donated RMB600,000 to the Poverty Alleviation Fund of Shanghai for the improvement of living quality for families with low income and in need in Shanghai. The Shenzhen branch of the Bank donated RMB500,000 million for the renovation of basic structures of a primary school in Zijin County of Heyuan City in Guangdong and the renovation of dangerous buildings of poor families in Yuanian Village of Heyuan City. The Yancheng branch of the Bank organised poverty alleviation program in cooperation with local government of Siming Town in Sheyang County of Jiangsu. The Company encourages its employees to participate in poverty alleviation and education activities.

### (III) Poverty alleviation works

Unit: RMB'000

Item	Amount and details
I. Overall	
among which: 1. Funds	6,450.50
2. Materials	
3. Number of people helped	
II. Donation by types	
Industrial development	5,000.00
Other projects	1,450.50
III. Awards (description)	
Financial Poverty Alleviation Award" in the Third Session of China (Shanghai) Listing Companies' Social Responsibility Summit	

### **(IV) Future plan for targeted poverty alleviation**

The Bank will further extend the targeted poverty alleviation work in order to strengthen the self-supported development for poverty areas and families. The Company will introduce new methods and strengthen the mechanism for targeted poverty alleviation and provide stronger credit support for targeted poverty alleviation. The agricultural industrialisation and technological training for poverty villages will be enhanced to improve the employability of poverty families. The Bank will focus on expressing care to poverty families.

### **(V) Performance of Social responsibility**

The Bank has performed its social responsibility proactively and issued annual social responsibility reports for eleven consecutive years in order to disclose the details to the public. For details of the Bank's social responsibility work in 2017, please see the "Report of Bank of Shanghai's Social Responsibility Work in 2017" published on the website of SSE (<http://www.sse.com.cn>).

## **XIII. Other major events**

### **(I) Private placing of preference shares**

On 5 December 2017, the Bank was approved by the CSRC for the private placing of preference shares. The Company arranged for the issue in early December and the issue was completed on 19 December 2017. A total of 200 million shares were issued to raised RMB20,000 million in aggregate. The net proceeds of the issue after deduction of expenses and offset of input value added tax were RMB19,957 million. The net proceeds of the issue were verified on 20 December 2017 and were credited as other equity instruments. The preference shares were registered for custody on 22 December 2017 and was listed on the composite board of Shanghai Stock Exchange on 12 January 2018 (stock code: 360029; abbreviation: 上银优 1).

### **(II) Issue of write-down qualified sub-ordinate capital bonds**

The proposal on the issue of write-down qualified sub-ordinate capital bonds was approved by the 21st meeting of the Fourth Session of the Board of Directors and 2016 annual general meeting of the Bank on 21 April 2017 and 23 June 2017, respectively. The Company was approved to issued write-down qualified sub-ordinate capital bonds. The Company will issue the bonds to replenish its capital when necessary and when market conditions are favourable.

## Changes in Ordinary Shares and Shareholders

Changes in ordinary shares

Issuance and Listing of Securities

Shareholders

Corporate shareholders with 5% or more of the issued shares



# Changes in Ordinary Shares and Shareholders

## I. Changes in ordinary shares

### (I) Table of changes in ordinary shares

Unit: Share

	Before the change		Change during the year (+, -)					After the change	
	Number	Percentage	New share issuance	Bonus shares	Shares converted from surplus reserve	Others	Sub-total	Number	Percentage
(I) Restricted shares	5,404,000,000	90.00%	-	-	+1,621,200,000	-2,926,309,958	-1,305,109,958	4,098,890,042	52.51%
1. State-owned shares	337,736,881	5.62%	-	-	+101,321,064	-397,875,273	-296,554,209	41,182,672	0.53%
2. Shares held by state-owned legal entities	2,688,765,689	44.78%	-	-	+806,629,704	-954,954,476	-148,324,772	2,540,440,917	32.55%
3. Shares held by other domestic investors	1,826,257,430	30.42%	-	-	+547,877,232	-1,573,480,209	-1,025,602,977	800,654,453	10.26%
Including: Shares held by domestic non-state-owned legal entities	945,253,227	15.74%	-	-	+280,893,836	-819,130,727	-538,236,891	407,016,336	5.21%
Shares held by domestic natural persons	881,004,203	14.67%	-	-	+266,983,396	-754,349,482	-487,366,086	393,638,117	5.04%
4. Shares held by foreign investors	551,240,000	9.18%	-	-	+165,372,000	-	+165,372,000	716,612,000	9.18%
Including: Shares held by foreign legal entities	551,240,000	9.18%	-	-	+165,372,000	-	+165,372,000	716,612,000	9.18%
Shares held by foreign natural persons	-	-	-	-	-	-	-	-	-
II. Non-restricted shares	600,450,000	10.00%	-	-	+180,135,000	+2,926,309,958	+3,106,444,958	3,706,894,958	47.49%
1. RMB-dominated ordinary shares	600,450,000	10.00%	-	-	+180,135,000	+2,926,309,958	+3,106,444,958	3,706,894,958	47.49%
2. Domestically-listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-
III. Total	6,004,450,000	100.00%	-	-	+1,801,335,000	-	+1,801,335,000	7,805,785,000	100.00%

Note: 1. Other than state shares and state-owned shares, other shares in the securities account of holders not yet confirmed by the Bank were accounted as domestic legal shares on an aggregated basis.

2. Discrepancy is due to rounding off.



## Changes in Ordinary Shares and Shareholders

### (II) Changes in ordinary shares

On 23 June 2017, the Shareholders' General Meeting of 2016 of the Bank considered and passed the proposed profit distribution plan for 2016 of the Bank of Shanghai Co., Ltd. On the basis of the Bank's total share capital of 6,004,450,000 shares prior to the implementation of the profit distribution plan, capital reserve was capitalised and 0.3 new share was issued for every share to all shareholders. A total of 1,801,335,000 new shares were issued, and the total share capital was 7,805,785,000 shares after the capitalisation. The record date for the profit distribution was 19 July 2017, and the ex-rights or ex-dividend date was 20 July 2017. KPMG Huazhen (Special General Partnership) verified the registered capital and accumulative paid-in capital (share capital) after such changes on 20 July 2017, and KPMG capital verification report No. 1700455 was issued.

On 16 November 2017, a total of 2,926,309,958 restricted shares of the Bank were listed for trading. Such tradable and listed shares are the restricted shares issued under the initial public offering of the Bank with a lock-up period of 12 months starting from the listing date of the shares of the Bank. As such, shares of the Bank subject to selling restrictions decreased and shares not subject to selling restrictions increased.

### (III) Impacts of the changes in ordinary shares on financial indicators (including earnings per share and net assets per share) of the latest year and the latest period

As at the end of the reporting period, basic earnings per share amounted to RMB1.96 and net assets per share attributable to ordinary shareholders of the Bank was RMB16.27. As calculated according to the total number of shares before the capitalisation, during the reporting period, basic earnings per share was RMB2.55 and net assets per share attributable to ordinary shareholders of the Bank was RMB21.16.

## II. Issuance and Listing of Securities

### (I) Changes in the total number of ordinary shares of the Bank and shareholder structure and the Bank's assets and liabilities structure

Please see "Changes in ordinary shares" for details.

### (II) Internal employee shares

As at the end of the reporting period, the number of internal employee shares which were tradable shares subject to selling restriction was 394,558,836.

Date of issuance of internal employee shares	Offer price of internal employee shares (RMB)	Issuance size of internal employee shares (share)
-	-	394,558,836
Description of existing internal employee shares	the number of internal employee shares which are tradable shares subject to selling restriction was 394,558,836. The internal employee shares are held mainly through the following ways: 1. subscription for shares before the merger and reorganisation of the Bank; 2. share issuance in the first capital increase of the Bank in 1999; and 3. transfer of shares due to inheritance and other reasons.	

## III. Shareholders

### (I) Total number of shareholders

As at the end of the reporting period, the Bank had 168,565 ordinary shareholders in total. As at the end of the month preceding the date of this annual report, the aggregate number of ordinary shareholders of the Bank was 163,773.

## Changes in Ordinary Shares and Shareholders

### (II) Shareholding of the top 10 shareholders, top 10 holders of tradable shares not subject to selling restrictions and top 10 holders of tradable shares subject to selling restrictions as at the end of the reporting period

Unit: Share

Shareholding of the top 10 shareholders							
Name of shareholder	Change during the reporting period	Number of shares held at the end of the period	Percentage	Number of shares subject to selling restrictions	Shares pledged or frozen		Nature of shareholder
					States of shares	Amount	
Shanghai Alliance Investment Ltd.	239,591,496	1,038,229,815	13.30%	1,038,229,815	-	-	State-owned legal person
Banco Santander, S.A.	116,736,000	505,856,000	6.48%	505,856,000	-	-	Foreign legal person
Shanghai International Port (Group) Co., Ltd.	116,736,000	505,856,000	6.48%	505,856,000	-	-	State-owned legal person
TCL Corporation	187,944,198	389,425,074	4.99%	261,925,139	-	-	Domestic non-state-owned legal person
China Jianyin Investment Limited	87,149,970	377,649,870	4.84%	377,649,870	-	-	State-owned legal person
Ping An Life Insurance Company of China, Ltd. — Universal— Universal Personal Insurance	350,126,761	350,126,767	4.49%	-	-	-	Others
Shipbuilding International Trading Co., Ltd.	73,512,020	318,552,087	4.08%	318,552,087	-	-	State-owned legal person
Shanghai Commercial Bank Limited	48,636,000	210,756,000	2.70%	210,756,000	-	-	Foreign legal person
Shanghai Jing'an Finance Bureau	103,958,209	159,811,466	2.05%	-	-	-	State
Shanghai Huangpu National Assets Company	34,912,106	151,285,794	1.94%	151,285,794	-	-	State-owned legal person

Shareholding of top 10 holders of tradable shares not subject to selling restrictions		
Name of shareholder	Number of tradable shares not subject to selling restrictions	Types of shares
Ping An Life Insurance Company of China, Ltd. — Universal— Universal Personal Insurance	350,126,767	RMB dominated ordinary shares
Shanghai Jing'an Finance Bureau	159,811,466	RMB dominated ordinary shares
TCL Corporation	127,499,935	RMB dominated ordinary shares
Shanghai Pudong Development (Group) Co., Ltd.	103,732,791	RMB dominated ordinary shares
Shanghai Luwan Financial Investment Company	82,989,954	RMB dominated ordinary shares
Commercial Aircraft Corporation of China, Ltd.	76,452,501	RMB dominated ordinary shares
Shanghai Hongkou State-owned Assets Operation Co., Ltd.	68,885,383	RMB dominated ordinary shares
Shanghai Changning Finance Bureau	66,395,684	RMB dominated ordinary shares
Shanghai Yangpu Finance Bureau	58,098,550	RMB dominated ordinary shares
Shanghai Minhang Assets Investment Management Co., Ltd.	55,501,967	RMB dominated ordinary shares
Connected relationship or action in concert of the above shareholders		There was no connected relationship or action in concert among the top 10 shareholders.

Note: In December 2017, holder name of the securities account of Shanghai Zhabei Finance Bureau was changed to Shanghai Jing'an Finance Bureau. After the change of name, the number of shares held by Shanghai Jing'an Finance Bureau has been consolidated with the number of shares originally held by Shanghai Zhabei Finance Bureau.

## Changes in Ordinary Shares and Shareholders

### Shareholding of the top 10 holders of shares subject to selling restrictions and related restrictions

Unit: Share

No.	Name of shareholder subject to selling restrictions	Number of shares subject to selling restrictions	Conditions for listing of shares subject to selling restrictions		Restrictions
			Date when the shares will be listed	Number of additional shares to be listed	
1	Shanghai Alliance Investment Ltd.	1,038,229,815	16 November 2019	-	No transfer of share is allowed within 36 months from the listing date of the shares
2	Banco Santander, S.A..	440,336,000	16 November 2019	No transfer of share is allowed within 36 months from the listing date of the shares	No transfer of share is allowed within 36 months from the listing date of the shares
		505,856,000	10 June 2020	No transfer of share is allowed within five years from the date of completion of the change in business registration	No transfer of share is allowed within five years from the date of completion of the change in business registration
3	Shanghai International Port (Group) Co., Ltd.	387,661,139	16 November 2019	No transfer of share is allowed within 36 months from the listing date of the shares	No transfer of share is allowed within 36 months from the listing date of the shares
		505,856,000	10 June 2020	No transfer of share is allowed within five years from the date of completion of the change in business registration	No transfer of share is allowed within five years from the date of completion of the change in business registration
4	China Jianyin Investment Limited	377,649,870	16 November 2019	-	No transfer of share is allowed within 36 months from the listing date of the shares
5	Shipbuilding International Trading Co., Ltd.	318,552,087	16 November 2019	-	
6	TCL Corporation	261,925,139	16 November 2019	-	
7	Shanghai Commercial Bank Limited	210,756,000	16 November 2019	-	
8	Shanghai Huangpu National Assets Company	151,285,794	16 November 2019	-	
9	Shanghai Huixin Investment Co., Ltd.	148,478,911	16 November 2019	-	
10	Citic Guoan Co., Ltd.	140,335,000	16 November 2019	-	
Connected relationship or action in concert of the above shareholders		There was no connected relationship or action in concert among the above shareholders.			

## IV. Corporate shareholders with 5% or more of the issued shares

The Bank had no controlling shareholder or de facto controller. The largest shareholder of the Bank was Shanghai Alliance Investment Ltd. The shareholders with 5% or more of the issued shares of the Bank were as follows:

Unit: RMB'000

Name of corporate shareholder	Person-in-charge or legal representative	Date of establishment	Organization code	Registered capital	Principal business or management activities
Shanghai Alliance Investment Ltd.	Qin Jian	September 1994	Unified social credit code 9131000013223401XX	3,514,611	Key infrastructure construction projects and investments in technological innovation, high-tech ventures, agriculture, real estate and other industrial development projects, consultancy and agency services, purchase and sales agency services, information research and personal training.
Banco Santander, S.A.	Ana Botin	March 1857	/	EUR8.1 billion	Corporate loan, retail banking and consumer finance.
Shanghai International Port (Group) Co., Ltd.	Chen Xuyuan	October 1988	Unified social credit code 913100001322075806	23,173,675	Domestic and overseas cargo (including containers) loading and unloading (including barge loading), storage, transit and sea and land transportation; container dismantling and assembling, cleaning, repair, manufacturing and leasing; international shipping, warehousing, storage, processing, distribution and logistics information management; provision of facilities and services for international travelers for waiting for vessels, boarding and alighting; ship diversion, towing, shipping agents, freight forwarders; provision of port services, including fuel and daily commodities; leasing of port facilities; port information and technology consultancy services; construction, management and operation of terminals; wholesale and import and export of port lifting equipment, handling machinery and electrical equipment and components.
Description	Nil				

## Preference Shares

Issuance and Listing of Preference Shares for the Three Years ended as at the end of the Reporting Period

Holders of Preference Shares

Profits Distribution for Preference Shares

Redemption or conversion of preference shares

Restoration of voting right of preference shares

Accounting policies for preference shares and reasons



## I. Issuance and Listing of Preference Shares for the Three Years ended as at the end of the Reporting Period

Stock code	Abbreviation	Date of issuance	Offer price (RMB)	Coupon rate	Offering Size	Listing date	Number of shares permitted to be listed for trading	Date of delisting
360029	上银优 1	19 December 2017	100	5.20%	200 million shares	12 January 2018	200 million shares	-
Use of proceeds and changes in use of proceeds			There was no change during the reporting period.					

## II. Holders of Preference Shares

### (I) Number of holders of preference shares

Total number of holders of preference shares as at the end of the reporting period	22
Total number of holders of preference shares as at the end of the month immediately prior to the date of this annual report	22

### (II) Top 10 holders of preference shares as at the end of the reporting period

Unit: Share

Shareholdings of top 10 holders of preference shares							
Name of shareholders (full name)	Changes in number of shares during the reporting period	Number of shares held as at the end of the period	Shareholding percentage	Class of shares held	Shares pledged or frozen		Nature of shareholders
					Status	Number	
Bank of Jiangsu Co., Ltd. — Wealth Concentration Cai Yi Rong	-	30,500,000	15.25%	RMB preference shares	-	-	Others
China Post & Capital Fund — Huaxia Bank — Huaxia Bank Co., Limited	-	20,000,000	10.00%	RMB preference shares	-	-	Others
Truvalue Asset Management — China Merchants Bank — China Merchants Bank Co., Ltd. )	-	20,000,000	10.00%	RMB preference shares	-	-	Others
AXA SPDB Investment Managers — Industrial Bank — China Merchants Securities Asset Management Co., Ltd.	-	20,000,000	10.00%	RMB preference shares	-	-	Others
BOCOM Schroders Asset Management — Bank of Communications — Bank of Communications Co., Ltd.	-	15,000,000	7.50%	RMB preference shares	-	-	Others
Changjiang Pension Insurance — Bank of China — China Pacific Life Insurance Co., Ltd	-	15,000,000	7.50%	RMB preference shares	-	-	Others
Postal Savings Bank of China Co., Ltd.	-	10,000,000	5.00%	RMB preference shares	-	-	Others
Ping An Life Insurance Company of China Ltd. — Universal Insurance — Universal Personal Insurance	-	10,000,000	5.00%	RMB preference shares	-	-	Others
Ping An Life Insurance Company of China Ltd. — Dividends — Dividends Personal Insurance	-	10,000,000	5.00%	RMB preference shares	-	-	Others

## Preference Shares

Shareholdings of top 10 holders of preference shares							
Name of shareholders (full name)	Changes in number of shares during the reporting period	Number of shares held as at the end of the period	Shareholding percentage	Class of shares held	Shares pledged or frozen		Nature of shareholders
					Status	Number	
CB Trust Co., Ltd. — Hengxinantai Bond Investment Asset Management Plan	-	10,000,000	5.00%	RMB preference shares	-	-	Others
If the preference shares held by a shareholder have different prioritized sequence in other situations other than the distribution of dividends and remaining assets, the number of shares held by such shareholder shall be disclosed	N/A						
Connected relationship or action in concert among the top 10 holders of preference shares and between the abovementioned shareholder(s) and the top 10 holders of ordinary shares	According to publically available information, the Bank came to the preliminary conclusion that there was connected relationship between Ping An Life Insurance Company of China Ltd. — Universal Insurance — Universal Personal Insurance and Ping An Life Insurance Company of China Ltd. — Dividends — Dividends Personal Insurance. Save for the above, the Bank was no aware of any connected relationship or action in concert among the above holders of preference shares and between the abovementioned shareholders and the top 10 holders of ordinary shares.						

## III. Profits Distribution for Preference Shares

As at the end of the reporting period, the above-mentioned preference shares were not due for dividend payment. There was no profit distribution for these preference shares for the past three years as they were issued for less than one year.

### (I) Basis for determination of the coupon rate

The above preference shares shall apply a coupon rate subject to phase-specific adjustment which represents that the dividends are distributed at the fixed coupon rate in each dividend adjustment period and the dividend shall be reset every five years thereafter.

The coupon rate is calculated based on the benchmark interest rate and a fixed premium. The benchmark interest rate for the first coupon-bearing period is the arithmetic mean (rounded to 0.01%) of the yields upon maturity of outstanding five-year government bonds contained in the yield curve published by China Bond Information Network ([www.chinabond.com.cn](http://www.chinabond.com.cn)) or other websites as approved by China Securities Depository & Clearing Corporation Limited (CSDCC) for fixed-interest-rate government bonds at the CSDCC inter-bank market 20 trading days(exclusive) prior to the payment date of the subscribed shares. The fixed premium is determined based on the coupon rate at the time of issue less the benchmark interest rate at the time of issue, and shall no longer be adjusted thereafter.

The coupon rate in the first dividend adjustment period of the above preference shares determined based on market consultation was 5.20%, and the benchmark interest rate and fixed premium were set at 3.86% and 1.34%, respectively.

### (II) Conditions for dividend distribution

The Bank may distribute dividends to the above-mentioned holders of preference shares under the condition that the Bank meets the regulatory requirements on capital adequacy for commercial banks and has distributable after-tax profits after making up losses and making appropriations to the statutory reserve and the general reserve in accordance with the law. Dividends distributed to the above-mentioned holders of preference shares shall be paid prior to dividend payment to holders of ordinary shares. Such dividend payment shall not be linked to the ratings of the Bank; neither shall it be adjusted when there is change in the ratings of the Bank.

The Company has the right to revoke all or any part of the above dividend distributions for preference shares, and this shall not constitute a breach of contract. The Company may, at its sole discretion, use the revoked dividends to repay other debts overdue. Revocation of dividend distribution for preference shares does not constitute any other restrictions on the Bank except for the restriction on profit distribution for ordinary shares.



The declaration and payment of dividends for all preference shares shall be resolved by the Board of Directors under the authorization of the shareholders' general meeting. The revocation of dividends for preference shares in part or in whole shall be subject to the approval of the shareholders' general meeting. Where the Bank intends to revoke the payment of dividends for preference shares, notice shall be given to holders of preference shares at least 10 working days prior to the date of dividend distribution. If the Bank revokes the dividend distribution for preference shares in whole or in part, the Bank shall not distribute profits to holders of ordinary shares from the date passing the resolution of the shareholders' general meeting until the resumption of full dividend distribution to the holders of preference shares.

### **(III) Dividend payment method**

Cash dividends for the above-mentioned preference shares shall be paid on an annual basis, and the coupon-bearing principal shall be the total par value of the remainder of the issued preference shares while the interest accrual starting date shall be 19 December 2017, being the closing date of share subscription.

### **(IV) Non-cumulative dividends**

Dividends for the above preference shares shall not be cumulative. If the Bank resolves to revoke dividends for preference shares in part or in whole, the deficit in a dividend payout in the current year will not be carried over to the next coupon-bearing year.

### **(V) Non-participation in distribution of surplus profits**

Other than rights to dividends as agreed upon in accordance with the issuance plan, the above-mentioned holders of preference shares shall not participate in the distribution of surplus profits together with the holders of ordinary shares.

## **IV. Redemption or conversion of preference shares**

No preference share of the Company was redeemed or converted during the reporting period.

## **V. Restoration of voting right of preference shares**

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

## **VI. Accounting policies for preference shares and reasons**

The Company made accounting judgements over its preference shares then issued and outstanding in accordance with the requirements of Accounting Standards for Business Enterprises No.22 - Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprises No. 37 - Presentation of Financial Instruments (2014 Revision) and other relevant accounting standards. As the preference shares issued and outstanding of the Bank carry no obligation to deliver cash and cash equivalents, nor have they any contractual obligations to deliver a variable number of its own equity instruments for settlement, they were therefore measured as other equity instruments. For details, please refer to Note III. 7(6) to the financial report.

## Directors, Supervisors, Senior Management and Employees

Existing Directors, Supervisors and senior management

Resigned Directors, Supervisors and senior management

Work experience (including full-time or part-time positions) of the Directors, Supervisors and senior management

Positions held by Directors at the Shareholder's entity

Positions held at other entities

Remuneration of Directors, Supervisors and senior management

Changes in Directors, Supervisors and senior management

Punishments Imposed by Securities Regulatory Authorities on the Incumbent and Resigned Directors, Supervisors and senior management during the Reporting Period in the Past Three Years

Details of Employees of the Bank and Key Subsidiaries



# I. Existing Directors, Supervisors and senior management

Name	Position	Gender	Year of birth	Commencement and expiration date of term of office	Shares held at the beginning of the period (shares)	Shares held at the end of the period (shares)	Changes in number of shares during the reporting period (shares)	Total remuneration (before tax) received from the Bank during the reporting period (RMB'0,000)	Whether receive remuneration from related parties of the Bank
Jin Yu	Chairman of the Board of Directors and Executive Director	Male	1965	23 June 2017-the expiry of the term of office of the current session	-	-	-	79.49	No
Hu Youlian	Vice Chairman of the Board of Directors, Executive Director and President	Male	1962	23 June 2017-the expiry of the term of office of the current session	73,000	94,900	21,900	79.49	No
Jiang Hong	Executive Director	Male	1962	3 August 2017-the expiry of the term of office of the current session	124,100	161,332	37,232	73.17	No
	Vice President			23 June 2017-the expiry of the term of office of the current session					
Ye Jun	Non-executive Director	Male	1972	23 June 2017-the expiry of the term of office of the current session	-	-	-	-	Yes
Ying Xiaoming	Non-executive Director	Male	1968	23 June 2017-the expiry of the term of office of the current session	-	-	-	-	Yes
Juan Manuel San Román López	Non-executive Director	Male	1964	23 June 2017-the expiry of the term of office of the current session	-	-	-	-	Yes
Chen Xuyuan	Non-executive Director	Male	1956	23 June 2017-the expiry of the term of office of the current session	-	-	-	-	Yes
Zhuang Zhe	Non-executive Director	Male	1972	3 August 2017-the expiry of the term of office of the current session	-	-	-	-	Yes
Li Chaokun	Non-executive Director	Male	1965	23 June 2017-the expiry of the term of office of the current session	-	-	-	-	Yes
Huang Xubin	Non-executive Director	Male	1965	23 June 2017-the expiry of the term of office of the current session	-	-	-	-	Yes
David Sek-chi Kwok	Non-executive Director	Male	1953	23 June 2017-the expiry of the term of office of the current session	-	-	-	-	Yes
Gan Xiangnan	Non-executive Director	Female	1970	8 December 2017-the expiry of the term of office of the current session	-	-	-	-	Yes
Wan Jianhua	Independent Non-executive Director	Male	1956	23 June 2017-the expiry of the term of office of the current session	-	-	-	18.00	Yes

## Directors, Supervisors, Senior Management and Employees

Name	Position	Gender	Year of birth	Commencement and expiration date of term of office	Shares held at the beginning of the period (shares)	Shares held at the end of the period (shares)	Changes in number of shares during the reporting period (shares)	Total remuneration (before tax) received from the Bank during the reporting period (RMB'0,000)	Whether receive remuneration from related parties of the Bank
Guan Tao	Independent Non-executive Director	Male	1970	3 August 2017-the expiry of the term of office of the current session	-	-	-	10.50	Yes
Sun Zheng	Independent Non-executive Director	Male	1957	3 August 2017-the expiry of the term of office of the current session	-	-	-	10.50	Yes
Xu Jianxin	Independent Non-executive Director	Male	1955	23 June 2017-the expiry of the term of office of the current session	-	-	-	18.00	Yes
Gong Fangxiang	Independent Non-executive Director	Male	1964	3 August 2017-the expiry of the term of office of the current session	-	-	-	10.50	Yes
Shen Guoquan	Independent Non-executive Director	Male	1965	3 August 2017-the expiry of the term of office of the current session	-	-	-	10.50	Yes
Liu Jinan	Vice Chairman of the Board of Supervisors and Employee Supervisor	Male	1964	23 June 2017-the expiry of the term of office of the current session	81,687	106,193	24,506	72.69	No
Yuan Zhigang	External Supervisor	Male	1958	23 June 2017-the expiry of the term of office of the current session	-	-	-	19.50	Yes
Ge Ming	External Supervisor	Male	1951	23 June 2017-the expiry of the term of office of the current session	-	-	-	10.50	Yes
Feng Xuefei	Employee Supervisor	Female	1973	23 June 2017- the expiry of the term of office of the current session	24,017	31,222	7,205	143.42	No
Shi Hongmin	Vice President and Chief Financial Officer	Male	1968	23 June 2017-the expiry of the term of office of the current session	-	-	-	73.17	No
Huang Tao	Vice President	Male	1971	23 June 2017-the expiry of the term of office of the current session	-	-	-	73.17	No
Hu Debin	Vice President	Male	1968	23 June 2017-the expiry of the term of office of the current session	-	-	-	73.17	No
Li Xiaohong	Board Secretary	Female	1969	23 June 2017-the expiry of the term of office of the current session	-	-	-	117.96	No

## Directors, Supervisors, Senior Management and Employees

Notes: 1. The remuneration of the Executive Directors, Vice Chairman of the Board of Supervisors and senior management of the Bank for 2017 was subject to confirmation of the competent authority, while the remaining information will be disclosed upon confirmation;

2. On 3 August 2017, the CBRC Shanghai Office approved the qualifications of Mr. Jiang Hong and Mr. Zhuang Zhe as Directors of the Bank, and the qualifications of Mr. Guan Tao, Mr. Sun Zheng, Mr. Gong Fangxiong and Mr. Shen Guoquan as Independent Directors of the Bank. In accordance with the resolution of the first meeting of the fifth session of the Board of Directors of the Bank, upon approval of the qualifications of the new Independent Directors, the original Independent Directors, namely Mr. Chen Xianglin, Ms. Cheng Jingping and Mr. Jin Bingrong, ceased to act as the Independent Directors and members of the relevant committees of the Board of Directors of the Bank. On 8 December 2017, the CBRC Shanghai Office approved the qualifications of Ms. Gan Xiangnan as the Director of the Bank;

3. During the reporting period, the changes in shareholdings of Directors and Supervisors were attributable to the approval of the Resolution regarding the Profit Distribution Proposal for 2016 of Bank of Shanghai Co., Ltd. at the 2016 annual general meeting, pursuant to which capital reserve was converted on the basis of 0.3 shares for every share of all the shareholders.

## II. Resigned Directors, Supervisors and senior management

Name	Position before resignation	Gender	Year of birth	Commencement and expiration date of term of office	Shares held at the beginning of the period (shares)	Shares held at the end of the period (shares)	Changes in number of shares during the reporting period (shares)	Total remuneration (before tax) received from the Bank during the reporting period (RMB'0,000)	Whether receive remuneration from related parties of the Bank
Zhang Weiguo	Executive Director and Vice President	Male	1957	8 April 2013-23 June 2017	87,600	113,880	26,280	67.12	No
Yang Jinlong	Non-executive Director	Male	1955	24 September 2015-23 June 2017	-	-	-	-	Yes
Li Ren	Non-executive Director	Male	1962	8 April 2013-23 June 2017	-	-	-	-	Yes
Chen Xianglin	Independent Non-executive Director	Male	1944	8 April 2013-2 August 2017	-	-	-	12.00	Yes
Cheng Jingping	Independent Non-executive Director	Female	1944	8 April 2013-2 August 2017	-	-	-	-	Yes
Jin Bingrong	Independent Non-executive Director	Male	1948	8 April 2013-2 August 2017	-	-	-	12.00	Yes
Fu Changlu	External Supervisor	Male	1948	8 April 2013-23 June 2017	-	-	-	9.00	No
Dai Guoqiang	External Supervisor	Male	1952	8 April 2013-23 June 2017	438	569	131	9.00	Yes
Li Jianguo	Vice President	Male	1963	23 June 2017-30 March 2018	-	-	-	76.77	No

Notes: 1. Mr. Zhang Weiguo retired in November 2017 and his remuneration above represents his total remuneration (before tax) received from the Bank during the reporting period;

2. Mr. Li Jianguo resigned as the Vice President of the Bank on 30 March 2018 and his remuneration above represents his total remuneration (before tax) received from the Bank during the reporting period;

3. During the reporting period, the changes in shareholdings of resigned Directors and Supervisors were attributable to the approval of the Resolution regarding the Profit Distribution Proposal for 2016 of Bank of Shanghai Co., Ltd. at the 2016 annual general meeting, pursuant to which capital reserve was converted on the basis of 0.3 shares for every share of all the shareholders.

### III. Work experience (including full-time or part-time positions) of the Directors, Supervisors and senior management

#### (I) Directors



**Jin Yu**

**Chairman of the Board of Directors and Executive Director**

Mr. Jin Yu, born in February 1965, currently serves as the secretary of party committee, Chairman of the Board of Directors and Executive Director of Bank of Shanghai, the Chairman of Bank of Shanghai (Hong Kong) Limited, a director of Shenlian International Investment Company and a director of Shanghai Commercial Bank Limited. His previous work experience includes a number of roles at China Construction Bank, including assistant to the chief manager and deputy chief manager of the banking department of the Shanghai branch, deputy chief manager and chief manager of the international business department of the Shanghai branch, chief manager of the banking department of the Shanghai branch, vice president of the Shanghai branch, general manager of the Singapore branch, general manager of the international business department of China Construction Bank, secretary of party committee, Vice Chairman of the Board of Directors and President of Bank of Shanghai and the Chairman of the board of directors of BOSCO Asset Management Co., Limited. Mr. Jin is a senior economist. He received a doctorate degree in economics from Fudan University.



**Hu Youlian**

**Vice Chairman of the Board of Directors, Executive Director and President**

Mr. Hu Youlian, born in April 1962, currently serves as the deputy secretary of party committee, Vice Chairman of the Board of Directors, Executive Director and President of Bank of Shanghai and the Chairman of the board of directors of BOSCO Asset Management Co., Limited. His previous work experience includes a number of roles at China Construction Bank, including deputy director of the Finance and Accounting Division of the Jiangsu branch, director of the Finance Division of the Finance and Accounting Department, director of the Comprehensive Division and Planning Division of the Planning and Finance Department as well as secretary of party committee and president of the Zhongshan branch, secretary of party committee and president of Bank of Shanghai Pudong Branch, and a member of party committee, assistant to President and Vice President of Bank of Shanghai. Mr. Hu is an accountant. He received a bachelor's degree in economics from Fudan University.



**Jiang Hong**

**Executive Director and Vice President**

Mr. Jiang Hong, born in April 1962, currently serves as a member of party committee, Executive Director and Vice President of Bank of Shanghai. His previous work experience includes engineer of the chief engineers' office at the computer centre of Shanghai branch of Industrial and Commercial Bank of China, the leader of the computer unit of the accounting and audit department of Shanghai Urban Credit Unions, person-in-charge and general manager of the IT Department of Bank of Shanghai, deputy chief engineer and chief engineer of Bank of Shanghai and director of China UnionPay Co., Ltd. Mr. Jiang is a senior engineer and a recipient of a special grant by the State Council. He received a master's degree in computer organisation and architecture from National University of Defense Technology and an EMBA degree from China Europe International Business School.

## Directors, Supervisors, Senior Management and Employees



Ye Jun

Non-executive Director

Mr. Ye Jun, born in November 1972, currently serves as the Non-executive Director of Bank of Shanghai, deputy general manager of Shanghai Alliance Investment Ltd., chairman of the board of supervisors of Shanghai Information Investment Inc., chairman of the board of directors of Shanghai New Margin Venture Capital Co., Ltd., vice chairman of the board of directors of Shanghai Zizhu Hi-tech Industrial Park Development Co., Ltd., a director of Shanghai Huahong (Group) Co., Ltd. and Shanghai Huali Microelectronics Corporation, chairman of the board of directors of Shanghai Alliance Financial Services Limited, a director of Sino-US United MetLife Insurance Company Limited and EverDisplay Optronics (Shanghai) Limited, chairman of the board of directors of Sinotherapeutics Inc., Shanghai Zhaoxin Semiconductor Co., Ltd., Joinus Technology Co., Ltd., Shanghai Liantong Network Communications Technology Co., Ltd. and QST Corporation, executive director and general manager of Shanghai Alliance Asset Management Co., Ltd., a director of Shanghai Lianxin Investment Management Co., Ltd. and Shanghai Atlas Investment Management Co., Ltd., chairman of the board of directors of Shanghai Xinjingnan Metal Products Co., Ltd. as well as a director of Shanghai Huali Integrated Circuit Manufacturing Co., Ltd. He served as deputy manager and manager of the investment banking department, manager of the business development department, assistant to general manager and manager of the financial services and investment department of Shanghai Alliance Investment Ltd. and chairman of the board of directors of Shanghai Wicresoft Co., Ltd. Mr. Ye is an economist. He received a master's degree in business administration from Shanghai Jiao Tong University.



Ying Xiaoming

Non-executive Director

Mr. Ying Xiaoming, born in June 1968, currently serves as the Non-executive Director of Bank of Shanghai, deputy chief economist of Shanghai Alliance Investment Ltd., a supervisor of Shanghai Huali Microelectronics Corporation, director of Shanghai APACRON Particle Equipment Co., Ltd., supervisor of Shanghai Huahong (Group) Co., Ltd., Shanghai Zhongke Shenjiang Electric Vehicle Co., Ltd., Tianjin STL Energy Technology Co., Ltd. and Shenzhen Kangva Technology Co., Ltd., a director of Shanghai Zhaoxin Semiconductor Co., Ltd., supervisor of Sino-US United MetLife Insurance Company Limited, director of Joinus Technology Co., Ltd., vice chairman of the board of directors of Shanghai INESA Intelligent Electronics Co., Ltd., and director of Shanghai Information Investment Inc., Sinotherapeutics Inc. and EverDisplay Optronics (Shanghai) Limited. He served as deputy manager of the management advisory department, manager of asset management department, executive manager of business development department and manager of audit department of Shanghai Alliance Investment Ltd. Mr. Ying is an accountant and certified public valuer in China. He received a bachelor's degree in industrial management engineering from Shanghai Jiao Tong University.



Juan Manuel San Román López

Non-executive Director

Mr. Juan Manuel San Román López, born in January 1964, is a Spanish. He currently serves as the Non-executive Director of Bank of Shanghai, chief executive officer of Santander Asset Management S.A. SGIC. and non-executive director of Bank of Beijing Consumer Finance Company. He served as vice president of research departments in Spain and Portugal of Salomon Brothers (now part of Citigroup), head of emerging market research department in Spain, Portugal, Italy and Europe of Santander, head of Europe stock market, head of global stock market and chief executive officer of investment market department of Santander, head of consumer finance in Nordic, Central and Eastern Europe of Santander, director of investment market of Santander, vice chairman of consumer finance in Poland, head of consumer finance in Spain, chairman of the board of supervisors of Extrobank (Russia) and chairman of consumer finance in Norway of Santander, the managing director of M&A and strategy department and chief executive director of Asia Pacific of Santander and non-executive director of Fortune Auto Finance Co., Ltd. He received a bachelor's degree from Universidad Pontificia Comillas, Spain.



## Directors, Supervisors, Senior Management and Employees



**Chen Xuyuan** Non-executive Director

Mr. Chen Xuyuan, born in July 1956, currently serves as the Non-executive Director of Bank of Shanghai, secretary of party committee and chairman of the board of directors of Shanghai International Port (Group) Co., Ltd., chairman of the board of directors of Shanghai International Shipping Service Center Development Co., Ltd., Shanghai Yinhui Real Estate Development Co., Ltd., Shanghai Port International Cruise Terminal Development Co., Ltd., Shanghai Port & Shipping Equity Investment Co., Ltd. and Shanghai Xingwaitan Development and Construction Limited and executive director of Shanghai Tongsheng Investment (Group) Co., Ltd. He served as deputy head of Shanghai Port Authority and chairman of the board of directors of Shanghai Port Container Co., Ltd., deputy secretary of party committee and vice president of Shanghai International Port (Group) Co., Ltd. and concurrently as chairman of the board of directors of Shanghai Port Container Co., Ltd., deputy secretary of party committee and president of Shanghai International Port (Group) Co., Ltd. and concurrently as chairman of the board of directors of Shanghai Port Container Co., Ltd. He also served as deputy secretary and secretary of party committee, president and director of Shanghai International Port (Group) Co., Ltd. Mr. Chen is a senior economist. He received an MBA degree from Shanghai Maritime University (previously known as Shanghai Maritime Institute).



**Zhuang Zhe** Non-executive Director

Mr. Zhuang Zhe, born in January 1972, currently serves as the Non-executive Director of Bank of Shanghai and assistant to the president of China Jianyin Investment Limited. He served as deputy director and director of the Henan branch of China Construction Bank, president and secretary of party committee of Zhengzhou Railway branch of China Construction Bank, deputy general manager of the custody division of finance, credit and trust of China Jianyin Investment Limited, deputy general manager (person-in-charge) of the corporate management department of China Jianyin Investment Limited, general manager of the long-term equity investment department of China Jianyin Investment Limited, chairman of the board of directors and secretary of the party committee of Zhongtong Kexin Technology Co., Ltd. and chairman and secretary of the party committee of JIC Holding Co., Ltd. Mr. Zhuang is a senior economist. He received a bachelor's degree in investment and economic management from Henan Institute of Finance and Economics.



**Li Chaokun** Non-executive Director

Mr. Li Chaokun, born in November 1965, currently serves as the Non-executive Director of Bank of Shanghai, head of the financial department of China State Shipbuilding Corporation Limited, director and general manager of Zhong Chuan Finance Co., Ltd., chairman of the board of directors of CSSC Investment Development Co., Ltd., CSSC Investment and Development (Shanghai) Co., Ltd. and China Cruise Industry Investment Company Limited, director of Jiulong Steel Logistics Co., Ltd. His previous work experience includes general manager of CSSC Nanjing Luzhou Environmental Protection Equipment Engineering Co., Ltd., deputy chief accountant of Nanjing Luzhou Machinery Factory, deputy general manager of CSSC Nanjing Luzhou Machine Co., Ltd., chief accountant of Zhenjiang CME Co., Ltd., deputy general manager of Zhong Chuan Finance Co., Ltd., and supervisor of Zheng Mao Group Co., Ltd. and CSSC Nanjing Luzhou Machine Co., Ltd. Mr. Li is a senior economist. He received an MBA degree from Nanjing University.

## Directors, Supervisors, Senior Management and Employees



**Huang Xubin** Non-executive Director

Mr. Huang Xubin, born in November 1965, currently serves as the Non-executive Director of Bank of Shanghai, executive director and chief financial officer of TCL Corporation, chairman of the board of directors of TCL Finance Co., Ltd., director of TCL Multimedia Technology Holdings Limited, Shenzhen TCL Real Estate Co., Ltd. and Huizhou TCL Home Appliance Group Co., Ltd., chairman of the board of directors of Shenzhen Qianhai Commerce Payment Technology Co., Ltd, Huizhou City Zhongkai TCL Zhi Rong Technology Small Loans Co., Ltd., TCL Finance Holdings Group (Shenzhen) Co., Ltd, TCL Finance Service (Shenzhen) Co., Ltd., TCL Finance Technology (Shenzhen) Co., Ltd., Highly Information Industry Co., Ltd. and T.C.L. Industries Holdings (H.K.) Limited. His previous work experience includes deputy chief manager of the credit card department and deputy director and director of the credit department of the Guangdong branch of China Construction Bank, manager of the issuance department of the Guangzhou branch of Guotai Junan Securities Co., Ltd., senior manager of the Guangzhou office of China Cinda Asset Management Co., Ltd., director of the settlement centre, member of the executive committee, chief economist, vice president and chief financial officer of TCL Corporation, general manager of TCL Group Finance Corporation, and director of TCL Communication Technology Holdings Limited, Huizhou Takeli Corporation and TCL Commercial Factoring (Shenzhen) Co., Ltd. Mr. Huang is a senior economist. He received a master's degree in finance from the Chinese Academy of Fiscal Sciences (formerly known as Research Institute for Fiscal Science, Ministry of Finance) and an EMBA degree from China Europe International Business School.



**David Sek-chi Kwok** Non-executive Director

Mr. David Sek-chi Kwok, born in May 1953, is an American. He currently serves as the Non-executive Director of Bank of Shanghai, executive director and chief executive officer of Shanghai Commercial Bank, director of Shanghai Commercial Bank Trustee Limited, The Hong Kong Institute of Bankers, Hai Kwang Property Management Company Limited, Bank Consortium Trust Company Limited, Shacom Futures Limited, Infinite Financial Solutions Limited, Shacom Insurance Brokers Limited, Shanghai Commercial Bank (Nominees) Ltd., Shacom Property (CA) Inc., Shacom Property (NY) Inc., The Hong Kong Bankers' Club, AR Consultant Services (HK) Ltd., Shacom Securities Limited, BC Reinsurance Ltd., Hong Kong Life Insurance Limited, HKS Education Fund Limited, Bank Consortium Holdings Limited, Paofoong Insurance Company (Hong Kong) Limited, Joint Electronic Teller Services Limited, JETCO Systems Limited, Luen Fung Hang Life Limited and BCT Financial Limited, member of Executive Committee of Duty Lawyer Service, member of Pacific Rim Bankers Program-Advisory Board, chairman of Banking and Finance Training Board of VTC and director of The Chinese Bankers' Association Limited and The Hong Kong Chi Tung Association Limited. He was a manager of the New York branch, San Francisco branch, Los Angeles branch and London branch of Shanghai Commercial Bank and the deputy general manager, supervisor of the branch administration office and general manager of Shanghai Commercial Bank and a Supervisor of Bank of Shanghai. Mr. Kwok is a fellow of Chartered Institute of Bankers and The Hong Kong Institute of Bankers. He received a bachelor's degree in financial study from New Method College.



**Gan Xiangnan** Non-executive Director

Ms. Gan Xiangnan, born in June 1970, currently serves as the Non-executive Director of Bank of Shanghai, deputy general manager of Shanghai Huangpu Investment Holdings (Group) Co., Ltd. and director of Shanghai New Huangpu Real Estate Co., Ltd. Her previous work experience includes manager of the asset management department of Shanghai New Huangpu (Group) Co., Ltd., deputy general manager of Shanghai Bund Source Development Co., Ltd., general manager of Shanghai New Huangpu Asset Management Co., Ltd. and manager of the investment development department of Shanghai Bund Investment Development (Group) Co., Ltd. She is a senior economist. She received a doctorate degree in economics from Fudan University.

## Directors, Supervisors, Senior Management and Employees



**Wan Jianhua** Independent Non-executive Director

Mr. Wan Jianhua, born in January 1956, currently serves as the Independent Non-executive Director of Bank of Shanghai, chairman of Association of Shanghai Internet Financial Industry, independent non-executive director of China Resource Bank of Zhuhai Co., Ltd., director of All In Pay Network Services Co., Ltd. and independent non-executive director of Great Wall Fund Management Co., Ltd., Shanghai Xin Nanyang Co., Ltd. and Gome Finance Technology Co., Ltd. His previous work experience includes director of the macro analysis division and comprehensive analysis division under the treasury management department of People's Bank of China, standing vice president of the headquarters of China Merchants Bank, chairman of the board of directors of Great Wall Securities, chairman of the board of directors of China Merchants Securities, president of China UnionPay Co., Ltd., general manager of Shanghai International Group Co., Ltd. and chairman of the board of directors of Guotai Junan Securities Co., Ltd. and E-Capital Transfer Co., Ltd. Mr. Wan received a master's degree in monetary banking from Financial Research Institute of the People's Bank of China.



**Guan Tao** Independent Non-executive Director

Mr. Guan Tao, born in November 1970, currently serves as the Independent Non-executive Director of Bank of Shanghai, member and senior fellow of China Finance 40 Forum, president of Qingdao CF40 Education Development Foundation, member of the Chinese Economists 50 Forum, executive director of China Financial Forum, director of China International Finance Society, executive director of China Society of World Economics, supervisor of Shanghai Finance Institute, supervisor of Northern Finance Institute, director of Pu Shan Foundation, independent non-executive director of China Minsheng Financial Holding Corporation Limited, VStone Fund and Minmetals Capital Company Limited and chair professor of Dong Fureng Economic & Social Development School of Wuhan University. He previously served in various positions of the State Administration of Foreign Exchange, including officer of the policy and regulation department, officer, deputy director, director and deputy director-general of the integrated department and deputy director-general and director-general of the international revenue department. Mr. Guan received a doctorate degree in world economics from Beijing Normal University.



**Sun Zheng** Independent Non-executive Director

Mr. Sun Zheng, born in December 1957, currently serves as the Independent Non-executive Director of Bank of Shanghai, chairman of the academic committee of Shanghai University of Finance and Economics, vice chairman of Accounting Society of China, member of the accounting standard and strategy committee of the Ministry of Finance, member of the China Accounting Standards Committee of the Ministry of Finance, member of the academic review committee (business administration) of the academic degree committee of the State Council, member of postgraduate education guidance committee for national business administration postgraduate degree, vice chairman of the business administration education guidance committee of the Ministry of Education, chairman of the accounting education guidance committee of the Ministry of Education, and independent director of Shanghai Rural Commercial Bank Co., Ltd., Shanghai Qiangsheng Holding Co., Ltd. and Industrial Securities Co., Ltd. His previous work experience includes deputy director and director of the accounting department of Shanghai University of Finance and Economics, assistant to the president of Shanghai University of Finance and Economics, vice president of Shanghai University of Finance and Economics and independent director of Shenergy Co., Ltd. and Shanghai Pudong Development Bank Co., Ltd. Mr. Sun is a professor, Chinese Certified Public Accountant and fellow certified public accountant of Australia, and a grantee of special allowance from the State Council. He received a doctorate degree in accounting from Shanghai University of Finance and Economics.

## Directors, Supervisors, Senior Management and Employees



**Xu Jianxin** Independent Non-executive Director

Mr. Xu Jianxin, born in November 1955, currently serves as the Independent Non-executive Director of Bank of Shanghai, senior vice president of Shanghai Puyi Investment Management Co., Ltd. and independent non-executive director of Shanghai Shunho New Materials Science & Technology Co., Ltd., Shanghai Jin Jiang International Hotels (Group) Company Limited and Zhejiang DunAn Controls & Technology Holding Co., Ltd. His previous work experience includes lecturer and associate professor of Shanghai University of Finance and Economics, certified public accountant of Da Hua Certified Public Accountants, deputy general manager of Shanghai Brilliance Investors Service Company Limited, deputy chief accountant, director, chief financial controller and chief economist of Orient International (Holding) Co., Ltd., vice chairman of the board of directors of Orient International Enterprise Ltd. and director of Shanghai Pudong Development Bank Co., Ltd. and independent non-executive director of Shanghai Sinyang Semiconductor Materials Co., Ltd. and Baida Group Co., Ltd. Mr. Xu is a senior accountant and Chinese Certified Public Accountant. He received a doctorate degree in accounting from Shanghai University of Finance and Economics.



**Gong Fangxiong** Independent Non-executive Director

Mr. Gong Fangxiong, born in February 1964, currently serves as the Independent Non-executive Director of Bank of Shanghai and the chairman of the board of directors of First Seafront Financial Limited. His previous work experience includes economist of the Federal Reserve Bank of New York, chief strategist and co-head of global currency and rates research at Bank of America, head of China research team, chief market strategist, chief economist for Greater China of JPMorgan and co-head of JPMorgan EM Asia market research and strategy, managing director of the Asia Pacific Region of JPMorgan, chairman of JPM China Diversified Industry Clients, vice chairman of JPMorgan China Investment Banking and the managing director of the Asia Pacific Region of JPMorgan and chairman of JPMorgan China Investment Banking. He is a Hong Kong citizen. He received a doctorate degree in finance and economics from the Wharton School of the University of Pennsylvania.



**Shen Guoquan** Independent Non-executive Director

Mr. Shen Guoquan, born in March 1965, currently serves as the Independent Non-executive Director of Bank of Shanghai, senior partner of Allbright Law Offices, member of the 4th Listing Committee of the Shanghai Stock Exchange, arbitrator of Shanghai Arbitration Commission, member of the finance and securities affairs committee of All China Lawyers Association and independent director of Jiangxi Lianchuang Optoelectronic Technology Co., Ltd. and Zibo Qixiang Tengda Chemical Co., Ltd. His previous work experience includes assistant prosecutor of the policy research office of Shanghai People's Procuratorate, partner of Shanghai Wanguo Law Firm, fulltime member of the 7th and 8th Share Issuance Examination Committee of the China Securities Regulatory Commission and independent director of Harbin Pharmaceutical Group Co., Ltd., Zhejiang Crystal-Optech Co., Ltd., Shanghai East Money Information Co., Ltd., Shanghai Xinhua Media Co., Ltd., Beijing Hualu Baina Film & TV Co., Ltd. and Suzhou TA&A Ultra Clean Technology Co., Ltd. Mr. Shen received a master's degree in economic law from East China University of Political Science and Law.

## (II) Supervisors



**Liu Jinan**

**Vice Chairman of the Board of Supervisors and Employee Supervisor**

Mr. Liu Jinan, born in June 1964, is the deputy secretary of party committee, secretary of the Discipline Inspection Commission, vice chairman of supervisory committee and employee Supervisor of Bank of Shanghai. His previous work experience includes office secretary of Shanghai Pudong branch of Industrial and Commercial Bank of China, deputy division-level secretary and deputy section chief of the secretary section of Shanghai City United Bank Ltd., assistant director and deputy director of the Executive Office of Bank of Shanghai, deputy general manager and deputy general manager (in charge) of the Personnel Department (currently known as the Human Resources Department) and general manager of the Human Resources Department of Bank of Shanghai. Mr. Liu is a senior economist. He received a master's degree in international economic law from East China University of Political Science and Law.



**Yuan Zhigang**

**External Supervisor**

Mr. Yuan Zhigang, born in January 1958, currently serves as an external Supervisor of Bank of Shanghai, professor of the School of Economics of Fudan University, director of the Employment and Social Security Research Centre of Fudan University, member of Shanghai Decision-Making Advisory Panel and independent non-executive director of Bank of Communications Schroder Fund Management Co., Ltd., JIC Trust Co., Ltd. and Shanghai Pudong Development Bank Co., Ltd. He has also acted as the head of the department of economics of Fudan University, director of School of Economics of Fudan University and independent non-executive director of Ningbo Fuda Company Limited. Mr. Yuan is a distinguished professor, doctoral supervisor in the Ministry of Education's Chang Jiang Scholars Program, and a grantee of special allowance from the State Council. He received a doctorate degree in economics from École des hautes études en sciences sociales (School for Advanced Studies in the Social Sciences, EHESS).



**Ge Ming**

**External Supervisor**

Mr. Ge Ming, born in September 1951, currently serves as an external Supervisor of Bank of Shanghai, chairman of the board of directors of Beijing Huaming Fulong Finance & Accounting Consulting Co., Ltd., independent director of Focus Media Information Technology Co., Ltd. and Ping An Insurance (Group) Company of China, Ltd., executive director of The Chinese Institute of Certified Public Accountants, member of the CPA Examination Committee of the Ministry of Finance, deputy director of the industry development committee of the Beijing Institute of Certified Public Accountants and member of the third session of the expert advisory committee for the merger, acquisition and reorganization of listed companies of the China Securities Regulatory Commission. His previous work experience includes managing partner and chief accountant of Ernst & Young Hua Ming LLP, chairman of the board of directors of Ernst & Young Hua Ming and independent director of Shunfeng International Clean Energy Limited and Shanghai Zhenhua Heavy Industries Co., Ltd. Mr. Ge is a senior accountant and Chinese Certified Public Accountant. He received a master's degree in international accounting from the Chinese Academy of Fiscal Sciences of the Ministry of Finance.



**Feng Xuefei**

**Employee Supervisor**

Ms. Feng Xuefei, born in January 1973, currently serves as an employee Supervisor, chairman of the labour union, division head of the party committee, head of the promotion department of the party committee, director of the office of the party committee, general manager of the human resources department, member of the disciplinary committee of the head office and secretary to the party committee under the head office of Bank of Shanghai. Her previous work experience includes chief officer of the research and development department of Bank of Shanghai, secretary to the communist youth league committee of Bank of Shanghai, general manager of the public relations department of the general office of Bank of Shanghai and deputy general manager of the credit card centre, deputy general manager (person-in-charge) and general manager of Bank of Shanghai. Ms. Feng is an economist. She received a master's degree in investment and economics from the graduate school of Dongbei University of Finance & Economics and an EMBA degree from China Europe International Business School.



## (III) Senior management



**Hu Youlian** Vice Chairman of the Board of Directors, Executive Director and President

Mr. Hu Youlian currently serves as the deputy secretary of party committee, Vice Chairman of the Board of Directors, Executive Director and President of Bank of Shanghai. Please refer to the profile of Directors.



**Jiang Hong** Executive Director and Vice President

Mr. Jiang Hong currently serves as a member of party committee, Executive Director and Vice President of Bank of Shanghai. Please refer to the profile of Directors.



**Shi Hongmin** Vice President and Chief Financial Officer

Mr. Shi Hongmin, born in October 1968, currently serves as a member of party committee, Vice President and chief financial officer of Bank of Shanghai, director of BOSC Asset Management Co., Limited. and China UnionPay Co., Ltd. and chairman of the board of directors of Shanghai ShangCheng Consumer Finance Corporation Limited. His previous work experience includes a number of roles at China Construction Bank, including deputy director (in charge) of the Finance Division of the Finance and Planning Department, deputy director (in charge) of the General Division, deputy director (in charge) of the Finance Section of the Office of Joint Stock Reform Leader Group, senior manager of the Policy and System Division of the Finance and Planning Department, deputy general manager of No. 1 Sub-branch of Shanghai Branch, senior manager of the Accounting and Settlement Division of the Credit Card Centre, and assistant to chief manager and deputy chief manager of the Credit Card Centre. Mr. Shi is a senior economist. He received a master's degree in technical economics from Tsinghua University School of Economics and Management.



**Huang Tao** Vice President

Mr. Huang Tao, born in August 1971, currently serves as a member of party committee and Vice President of Bank of Shanghai, and director of Bank of Shanghai (Hong Kong) Limited and Shenlian International Investment Company, alternate director of Shanghai Commercial Bank Limited and chairman of the board of director of BOSC International Company Limited. His previous work experience includes a number of roles at China Construction Bank, including senior deputy manager of the credit management division, senior manager of the credit asset quality supervision division, senior manager of the corporate credit product risk division under the risk management department, and assistant to chief manager of the risk management department. He has also served as senior vice president, Board secretary, alternate administrative president, executive director and executive vice president of China Construction Bank (Asia) Corporation Limited, director of China Construction Bank (Macau) Corporation Limited and QBE Hong Kong & Shanghai Insurance Limited, deputy chief manager of the risk management department of China Construction Bank and chief risk officer of Bank of Shanghai. Mr. Huang is an economist. He received a master's degree in business administration from the University of Oxford.

## Directors, Supervisors, Senior Management and Employees



**Hu Debin**

**Vice President**

Mr. Hu Debin, born in October 1968, currently serves as a member of party committee and Vice President of Bank of Shanghai. He served at the Analysis and Testing Centre of Jilin University and the Technology Division of the Changchun branch of Industrial and Commercial Bank of China. His previous work experience also includes a number of roles at Industrial and Commercial Bank of China, including project manager, division manager, assistant to general engineer, assistant to general manager, deputy general manager and a member of the party committee of Software Development Centre, and deputy general manager and deputy secretary of the party committee of the Data Centre (Shanghai). He also served as the chief information officer of Bank of Shanghai. Mr. Hu is a senior engineer. He received a doctorate degree in software engineering from Jilin University.



**Li Xiaohong**

**Board Secretary**

Ms. Li Xiaohong, born in December 1969, currently serves as the Board secretary of Bank of Shanghai. Ms. Li served as a teacher in the Foreign Language Department of Dalian Military Academy, a teacher in the Foreign Language Department of the People's Liberation Army General Hospital. Her previous work experience includes a number of roles at CSRC, including the person-in-charge of the Training Division I and the principal staff member of the Training Division II of the Training Centre, the principal staff member of the Foreign Affairs Division of the International Cooperation Department, the principal staff member, deputy division-chief-level secretary and division-chief-level secretary of the Secretarial Division of the General Office, Consultant of the No. 5 vetting division of the Issuance Supervision Department and director of the Working Division of the Issuance Approval Commission, and assistant to director (secondment) of Shanghai Financial Services Office. Ms. Li received a doctorate degree in jurisprudence from Jilin University.

## IV. Positions held by Directors at the Shareholder's entity

Name	Name of the shareholder's entities	Positions held	Commencement of employment
Ye Jun	Shanghai Alliance Investment Ltd.	Deputy general manager	December 2009
Ying Xiaoming	Shanghai Alliance Investment Ltd.	Deputy chief economist	December 2014
Juan Manuel San Román López	Santander Asset Management S.A. SGIC.	Chief executive officer	June 2017
Chen Xuyuan	Shanghai International Port (Group) Co., Ltd.	Secretary of party committee and chairman of the board of directors	April 2011
Zhuang Zhe	China Jianyin Investment Limited	Assistant to the president	November 2016
Li Chaokun	China State Shipbuilding Corporation Limited	Head of the financial department	February 2018
Huang Xubin	TCL Corporation	Executive director and chief financial officer	January 2011
David Sek-chi Kwok	Shanghai Commercial Bank	Executive director and chief executive officer	October 2007
Gan Xiangnan	Shanghai Huangpu Investment Holdings (Group) Co., Ltd.	Deputy general manager	March 2017



## V. Positions held at other entities

Name	Name of other entities	Positions held
Jin Yu	Bank of Shanghai (Hong Kong) Limited	Chairman of the board of directors
	Shenlian International Investment Company	Director
	Shanghai Commercial Bank Limited	Director
Hu Youlian	BOSC Asset Management Co., Limited	Chairman of the board of directors
	Shanghai Information Investment Inc.	Chairman of the board of supervisors
	Shanghai New Margin Venture Capital Co., Ltd.	Chairman of the board of directors
Ye Jun	Shanghai Zizhu Hi-tech Industrial Park Development Co., Ltd.	Vice chairman of the board of directors
	Shanghai Huahong (Group) Co., Ltd.	Director
	Shanghai Huali Microelectronics Corporation	Director
	Shanghai Alliance Financial Services Limited	Chairman of the board of directors
	Sino-US United MetLife Insurance Company Limited	Director
	EverDisplay Optronics (Shanghai) Limited	Director
	Sinotherapeutics Inc.	Chairman of the board of directors
	Shanghai Zhaoxin Semiconductor Co., Ltd.	Chairman of the board of directors
	Joinus Technology Co., Ltd.	Chairman of the board of directors
	Shanghai Liantong Network Communications Technology Co., Ltd.	Chairman of the board of directors
	QST Corporation	Chairman of the board of the directors
	Shanghai Alliance Asset Management Co., Ltd.	Executive director and general manager
	Shanghai Lianxin Investment Management Co., Ltd.	Director
	Shanghai Atlas Investment Management Co., Ltd.	Director
	Shanghai Xinjingnan Metal Products Co., Ltd.	Chairman of the board of the directors
	Shanghai Huali Integrated Circuit Manufacturing Co., Ltd.	Director
	Shanghai Huali Microelectronics Corporation	Supervisor
	Shanghai APACTRON Particle Equipment Co., Ltd.	Director
	Shanghai Huahong (Group) Co., Ltd.	Supervisor
	Shanghai Zhongke Shenjiang Electric Vehicle Co., Ltd.	Supervisor
	Tianjin STL Energy Technology Co., Ltd.	Supervisor
Ying Xiaoming	Shenzhen Kangva Technology Co., Ltd	Supervisor
	Shanghai Zhaoxin Semiconductor Co., Ltd.	Director
	Sino-US United MetLife Insurance Company Limited	Supervisor
	Joinus Technology Co., Ltd.	Director
	Shanghai INESA Intelligent Electronics Co., Ltd.	Vice chairman of the board of directors
	Shanghai Information Investment Inc.	Director
	Sinotherapeutics Inc.	Director
	EverDisplay Optronics (Shanghai) Limited	Director
	Bank of Beijing Consumer Finance Company	Non-executive director

## Directors, Supervisors, Senior Management and Employees

Name	Name of other entities	Positions held
Chen Xuyuan	Shanghai International Shipping Service Center Development Co., Ltd.	Chairman of the board of directors
	Shanghai Yinhui Real Estate Development Co., Ltd.	Chairman of the board of directors
	Shanghai Port International Cruise Terminal Development Co., Ltd.	Chairman of the board of directors
	Shanghai Port & Shipping Equity Investment Co., Ltd.	Chairman of the board of directors
	Shanghai Xingwaitan Development and Construction Limited	Chairman of the board of directors
	Shanghai Tongsheng Investment (Group) Co., Ltd.	Executive director
Li Chaokun	Zhong Chuan Finance Co., Ltd.	Director and general manager
	CSSC Investment and Development Co., Ltd.	Chairman of the board of directors
	CSSC Investment and Development (Shanghai) Co., Ltd.	Chairman of the board of directors
	China Cruise Industry Investment Company Limited	Chairman of the board of directors
	Jiulong Steel Logistics Co., Ltd.	Director
Huang Xubin	TCL Finance Co., Ltd.	Chairman of the board of directors
	TCL Multimedia Technology Holdings Limited	Director
	Shenzhen TCL Real Estate Co., Ltd.	Director
	Huizhou TCL Home Appliance Group Co., Ltd.	Director
	Shenzhen Qianhai Commerce Payment Technology Co., Ltd.	Chairman of the board of directors
	Huizhou City Zhongkai TCL Zhi Rong Technology Small Loans Co., Ltd.	Chairman of the board of directors
	TCL Finance Holdings Group (Shenzhen) Co., Ltd.	Chairman of the board of directors
	TCL Finance Service (Shenzhen) Co., Ltd.	Chairman of the board of directors
	TCL Finance Technology (Shenzhen) Co., Ltd.	Chairman of the board of directors
	Highly Information Industry Co., Ltd.	Chairman of the board of directors
David Sek-chi Kwok	T.C.L. Industries Holdings (H.K.) Limited	Chairman of the board of directors
	Shanghai Commercial Bank Trustee Limited	Director
	The Hong Kong Institute of Bankers	Director
	Hai Kwang Property Management Company Limited	Director
	Bank Consortium Trust Company Limited	Director
	Shacom Futures Limited	Director
	Infinite Financial Solutions Limited	Director
	Shacom Insurance Brokers Limited	Director
	Shanghai Commercial Bank (Nominees) Ltd.	Director
	Shacom Property (CA) Inc.	Director
	Shacom Property (NY) Inc.	Director
	The Hong Kong Bankers' Club	Director
	AR Consultant Services (HK) Ltd.	Director
	Shacom Securities Limited	Director

## Directors, Supervisors, Senior Management and Employees

Name	Name of other entities	Positions held
David Sek-chi Kwok	BC Reinsurance Ltd.	Director
	Hong Kong Life Insurance Limited	Director
	HKS Education Fund Limited	Director
	Bank Consortium Holdings Limited	Director
	Pafoong Insurance Company (Hong Kong) Limited	Director
	Joint Electronic Teller Services Limited	Director
	JETCO Systems Limited	Director
	Luen Fung Hang Life Limited	Director
	BCT Financial Limited	Director
	Executive Committee of Duty Lawyer Service	Member
	Pacific Rim Bankers Program-Advisory Board	Member
	Banking and Finance Training Board of VTC	Chairman
	The Chinese Bankers' Association Limited	Director
	The Hong Kong Chi Tung Association Limited	Director
Gan Xiangnan	Shanghai New Huangpu Real Estate Co., Ltd.	Director
Wan Jianhua	Association of Shanghai Internet Financial Industry	Chairman
	China Resource Bank of Zhuhai Co., Ltd.	Independent non-executive director
	All In Pay Network Services Co., Ltd.	Director
	Great Wall Fund Management Co., Ltd.	Independent non-executive director
	Shanghai Xin Nanyang Co., Ltd.	Independent non-executive director
	Gome Finance Technology Co., Ltd.	Independent non-executive director
Guan Tao	China Finance 40 Forum	Academic committee member and senior researcher
	Qingdao CF40 Education Development Foundation	Chairman
	Chinese Economists 50 Forum	Member
	China Financial Forum	Managing director
	China International Finance Society	Director
	China Society of World Economics	Managing director
	Shanghai Finance Institute	Supervisor
	Northern Finance Institute	Supervisor
	Pu Shan Foundation	Director
	China Minsheng Financial Holding Corporation Limited	Independent non-executive director
	V.Stone Fund	Independent non-executive director
	Minmetals Capital Company Limited	Independent non-executive director
	Dong Fureng Economic and Social Development School of Wuhan University	Dong Fureng chair professor

## Directors, Supervisors, Senior Management and Employees

Name	Name of other entities	Positions held
Sun Zheng	Academic committee of Shanghai University of Finance and Economics	Chairman
	Accounting Society of China	Vice chairman
	Accounting standard and strategy committee of the Ministry of Finance	Member
	China Accounting Standards Committee of the Ministry of Finance	Member
	Academic review committee (business administration) of the academic degree committee	Member
	Postgraduate education guidance committee for national business administration postgraduate Degree	Member
	Business administration education guidance Committee of the Ministry of Education	Vice chairman
	Accounting education guidance committee of the Ministry of Education	Chairman
	Shanghai Rural Commercial Bank Co., Ltd.	Independent director
	Shanghai Qiangsheng Holding Co., Ltd.	Independent director
	Industrial Securities Co., Ltd.	Independent director
Xu Jianxin	Shanghai Puyi Investment Management Co., Ltd.	Senior vice president
	Shanghai Shunho New Materials Science & Technology Co., Ltd.	Independent non-executive director
	Shanghai Jin Jiang International Hotels (Group) Company Limited	Independent non-executive director
	Zhejiang DunAn Valves Co., Ltd.	Independent non-executive director
Gong Fangxiong	First Seafront Financial Limited	Chairman of the board of directors
Shen Guoquan	AllBright Law Offices	Senior partner
	The 4th Listing Committee of the Shanghai Stock Exchange	Member
	Shanghai Arbitration Commission	Arbitrator
	Finance and securities affairs committee of All China Lawyers Association	Member
	Jiangxi Lianchuang Optoelectronic Technology Co., Ltd.	Independent director
	Zibo Qixiangtenda Chemical Co., Ltd.	Independent director
Yuan Zhigang	School of Economics of Fudan University	Professor
	Employment and Social Security Research Centre of Fudan University	Director
	Shanghai Decision-Making Advisory Panel	Member
	Bank of Communications Schroder Fund Management Co., Ltd.	Independent non-executive director
	JIC Trust Co., Ltd.	Independent non-executive director
	Shanghai Pudong Development Bank Co., Ltd.	Independent non-executive director
Ge Ming	Beijing Huaming Fulong Finance & Accounting Consulting Co., Ltd.	Chairman of the board of directors
	Focus Media Information Technology Co., Ltd.	Independent director
	Ping An Insurance (Group) Company of China, Ltd.	Independent director
	The Chinese Institute of Certified Public Accountants	Executive director
	CPA Examination Committee of the Ministry of Finance	Member
	Industry development committee of the Beijing Institute of Certified Public Accountants	Deputy director
	The third session of the expert advisory committee for the merger, acquisition and reorganization of listed companies of the China Securities Regulatory Commission	Member

## VI. Remuneration of Directors, Supervisors and senior management

<b>Decision-making procedure regarding the remuneration of Directors, Supervisors and senior management</b>	Remuneration of the legal representative of the Bank shall be approved by the competent department at a higher level. Remuneration of other Directors, Supervisors and senior management who are entitled to receive remuneration from the Bank shall be reviewed by the Nomination and Remuneration Committee under the Board of Directors and reported to the Board of Directors for approval.
<b>Basis for determination of the remuneration of Directors, Supervisors and senior management</b>	The basis for determination of remuneration of the legal representative of the Bank shall be approved by the competent department according to the relevant rules on management of remuneration of senior officers of state-owned enterprises and the results of annual assessment. Remuneration distribution plan approved by the Board of Directors and Nomination and Remuneration Committee shall be adopted for other Directors, Supervisors and senior management who are entitled to receive remuneration from the Bank.
<b>Actual total amount of remuneration received by Directors, Supervisors and senior management at the end of the reporting period</b>	During the reporting period, the total amount of remuneration of the Directors, Supervisors and senior management was RMB10,796,200 (excluding the portion payable upon the completion of the assessment). In accordance with relevant requirements of government departments, the total amount of remuneration of the Executive Directors, Vice Chairman of the Board of Supervisors and senior management of the Bank for 2017 was subject to confirmation of the competent authority. However, it is expected that the remuneration subject to the confirmation will have no material impact on the financial statements of the Group and the Bank for 2017.

## VII. Changes in Directors, Supervisors and senior management

Date	Name	Changes	Reasons of change
2 June 2017	Liu Jinan	Elected as Employee Supervisor	Election of the employee representative meeting
	Feng Xuefei		
23 June 2017	Fu Changlu	Ceased to serve as External Supervisor	Election of the Board of Supervisors
	Dai Guoqiang		
	Yuan Zhigang	Elected as External Supervisor of the fifth session of the Board of Supervisors of the Bank at the 2016 annual general meeting	
	Ge Ming		
	Liu Jinan	Elected as Vice Chairman of the Board of Supervisors at the first meeting of the fifth session of the Board of Supervisors	
	Zhang Weiguo	Ceased to serve as Executive Director and Vice President	
	Yang Jinlong	Ceased to serve as Non-executive Director	
	Li Ren		
2 August 2017	Chen Xianglin	Ceased to serve as Independent Non-executive Director	Election of the Board of Directors
	Cheng Jingping		
	Jin Bingrong		
3 August 2017	Jiang Hong	Elected as Executive Director of the fifth session of the Board of Directors of the Bank at the 2016 annual general meeting and approved by the CBRC Shanghai Office	Election of the Board of Directors
	Zhuang Zhe	Elected as Non-executive Director of the fifth session of the Board of Directors of the Bank at the 2016 annual general meeting and approved by the CBRC Shanghai Office	
	Guan Tao	Elected as Independent Non-executive Director of the fifth session of the Board of Directors of the Bank at the 2016 annual general meeting and approved by the CBRC Shanghai Office	
	Sun Zheng		
	Gong Fangxiong		
	Shen Guoquan		

## Directors, Supervisors, Senior Management and Employees

Date	Name	Changes	Reasons of change
8 December 2017	Gan Xiangnan	Elected as Non-executive Director of the fifth session of the Board of Directors of the Bank at the first extraordinary meeting for 2017 and approved by the CBRC Shanghai Office	Election of the shareholders' general meeting
30 March 2018	Li Jianguo	Resigned as Vice President	Work rearrangement

## VIII. Punishments Imposed by Securities Regulatory Authorities on the Incumbent and Resigned Directors, Supervisors and senior management during the Reporting Period in the Past Three Years

There was no punishment imposed by securities regulatory authorities in the past three years.

## IX. Details of Employees of the Bank and Key Subsidiaries

### (I) Details of employees

Unit: Person

<b>Total number of employees</b>	<b>10,305</b>
Including: the Bank	10,000
Key subsidiaries	305
Number of retired employees of the Bank and key subsidiaries	153
Composition of employees of the Bank by function	
Corporate banking business	2,141
Financial market	231
Retail banking	1,614
Branch outlet	2,111
Risk and internal control	614
Operation management	1,241
Party discipline work group	33
Management support	1,072
Management at all levels	647
Others	296
Composition of employees of the Bank by education level	
Postgraduate	1,461
University graduate	7,211
Junior college graduate	1,000
Technical secondary school and below	328
<b>Total</b>	<b>10,000</b>

### (II) Employee remuneration policy

During the reporting period, the remuneration policy of the Bank remained stable. The remuneration of employees of the Bank comprises basic salaries, allowances, performance based bonuses and benefits. The resource allocation of the remuneration of employees of the Bank adheres to value-oriented and performance-oriented principles in order to ensure that annual total cash income of employees is in line with their contribution and performance. The Bank further improved the remuneration management mechanism, strengthened the guidance of performance distribution and guided branches to reasonably allocate and use remuneration resources in order to enhance the efficiency of resource allocation.

During the reporting period, the Bank further improved the budget management and implementation mechanism of total salaries. Annual total salary expenses are linked with the actual results of the operations of the Bank. The Bank implemented deferred payment of performance salaries for certain key positions in order to further improve the long term risk accountability and recourse mechanisms, match the deferral of remuneration with the deferred period of risks, and facilitate the sound operation and sustainable development of the Bank.

### (III) Employee training programme

The Bank classified its management training programmes, which focus on enhancing the strategic and operation insights of employees, in accordance with the qualification requirements on the management staff for its business transformation and development. It also carried out professional talent training programmes to improve employees' management logic and expertise as well as special business training programmes to promote business transformation and risk prevention. In addition, work qualification training programmes were also carried out with a focus on entry criteria and post competency so as to promote the implementation of strategies of the Bank with adequate human resources.

## Corporate Governance

Basic information of corporate governance

Shareholders' general meeting

Board of Directors

Performance of duties by Directors

Committees under the Board of Directors

Board of Supervisors

Committees under the Board of Supervisors

Establishment and implementation of the appraisal and incentive mechanism for senior management during the reporting period

Internal control

Self-evaluation report on internal control

Explanation of issues in relation to the internal control audit report

Internal audit

Information disclosure and management of insider information

Management of investor relations

Organisational Chart



## I. Basic information of corporate governance

During the reporting period, the Bank further optimized its corporate governance system and strengthened the information disclosure and management mechanism of investor relationship. All subjects of corporate governance diligently performed their duties and operated within their scope of power.

The shareholders of the Bank shall be subject to the rights and obligations in accordance with the Articles of Association. We are not aware of any abuse of rights of shareholders due to violation of the Articles of Association which was detrimental to the interests of the Bank, other shareholders and debtors. The Bank convened and held shareholders' general meetings in compliance with the laws and regulations to ensure that the shares of all shareholders, especially minority shareholders, rank *pari passu* and that the shareholders can fully exercise their rights.

The Board of Directors faithfully performed its duties and cautiously executed its decision making rights to make significant contributions to strategic management, strategic plan implementation, new plan formulation, capital replenishment, integrated operation, branch network, corporate governance refinement, comprehensive risk management, internal control management and corporate culture of the Bank.

The Board of Supervisors duly implemented the regulatory guidelines and improved the composition of the Board of Supervisors and its supervisory mechanism. It fulfilled supervisory requirements in accordance with the laws and conducted specific investigations and studies to duly perform its supervisory duties with a focus on business development, risk prevention, internal control management and financial position. Objective and fair opinions and suggestions were provided to facilitate the stable development of the Bank.

The senior management adhered to the strategies of the Bank with focus on value creation to accelerate its transformation and strengthen its capabilities. It also refined its system and mechanism to improve efficiency with positive progress in various aspects and accomplished its tasks and missions with satisfactory results.

There has not been any significant deviation in the actual corporate governance of the Bank from the regulatory documents in respect of corporate governance which were promulgated by the CBRC and the CSRC. The Bank has no controlling shareholder or de facto controller. The Bank is completely independent from its majority shareholders in respect of business, personnel, asset, organization and finance. It has the ability to independently operate its own business. The Board of Directors, the Board of Supervisors and the internal departments are independent from each other.

## II. Shareholders' general meeting

### (I) Basic situation of the shareholders' general meeting

The shareholders' general meeting is the organ of authority of the Bank comprised by all shareholders. The Bank convenes and holds shareholders' general meetings in strict compliance with the Articles of Association and the Rules of Procedures of the Shareholders' General Meeting in order to guarantee the rights of the shareholders to information, participation and voting and ensure that all shareholders can fully exercise their rights.

### (II) Shareholders' General Meeting

During the reporting period, the Bank held two shareholders' general meetings on 23 June 2017 and 27 October 2017 which were the 2016 annual general meeting and the first extraordinary general meeting in 2017, respectively, for the consideration and approval of 22 proposals, including the work report of the Board of Directors, work report of the Board of Supervisors, financial budget proposal, profit distribution proposal, report on performance assessment of the Directors and Supervisors, engagement of external auditors, extension of the validity period of the resolution of the issuance and listing of H shares, issuance of preference shares, amendment of the Articles of Association and election of the Board of Directors and the Board of Supervisors, and the review of the management report on the duties of independent directors and the related-party transactions. All shareholders' general meetings were in strict compliance with the Articles of Association and other applicable regulations to guarantee the shareholders' rights to participation and vote and the issue of legal opinions by lawyers. The announcement on the resolution of the shareholders' general meeting was published on the website of the Shanghai Stock Exchange and the website of the Bank.



### III. Board of Directors

#### (I) Basic information of the Board of Directors

During the reporting period, the Directors faithfully performed their duties. They duly reviewed and discussed all issues and attended meetings in person. They also thoroughly investigated and actively discussed and expressed their opinions before exercising their rights to vote in a prudent and responsible manner. The Board of Directors was in strict compliance with the laws and regulations and the Articles of Association in respect of, among others, scope of decision making, decision making procedures, authorization procedures and voting procedures. The Board of Directors held 11 meetings and reviewed 75 issues. Its efforts contributed to the strengthening of strategic management, the acceleration of the completion of strategic plans, the research on new plans, capital replenishment, integrated operation, branch network, enhancement of corporate governance, information disclosure and management mechanism of investors relationship, intensified comprehensive risk management and internal control management and outstanding corporate culture. These contributions has facilitated the stable operation and healthy development of the Bank.

#### (II) Board of Directors' implementation of resolutions of the shareholders' general meeting

During the reporting period, the Board of Directors of the Bank strictly executed the resolutions of the shareholders' general meeting, and implemented the resolutions such as the 2016 Profit Distribution Proposal and the Engagement of Accounting Firms for 2017. It also facilitated the private offering of the preference shares.

#### (III) Composition of the Board of Directors

As at the end of the reporting period, the Board of Directors of the Bank has 18 Directors, of which three are Executive Directors, namely Mr. Jin Yu, Mr. Hu Youlian and Mr. Jiang Hong, nine are Non-executive Directors, namely Mr. Ye Jun, Mr. Ying Xiaoming, Mr. Juan Manuel San Román López, Mr. Chen Xuyuan, Mr. Zhuang Zhe, Mr. Li Chaokun, Mr. Huang Xubin, Mr. David Sek-chi Kwok and Ms. Gan Xiangnan, and six are Independent Non-executive Directors, namely Mr. Wan Jianhua, Mr. Guan Tao, Mr. Sun Zheng, Mr. Xu Jianxin, Mr. Gong Fangxiong and Mr. Shen Guoquan.

#### (IV) Meetings of the Board of Directors

Date	Meeting	Designated website for enquiry	Date of disclosure
13 January 2017	20th meeting of the fourth session	www.sse.com.cn	14 January 2017
28 March 2017	13th extraordinary meeting of the fourth session	www.sse.com.cn	29 March 2017
21 April 2017	21st meeting of the fourth session	www.sse.com.cn	24 April 2017
27 April 2017	14th extraordinary meeting of the fourth session	www.sse.com.cn	28 April 2017
5 May 2017	15th extraordinary meeting of the fourth session	www.sse.com.cn	6 May 2017
23 June 2017	1st meeting of the fifth session	www.sse.com.cn	24 June 2017
25 August 2017	2nd meeting of the fifth session	www.sse.com.cn	26 August 2017
11 September 2017	1st extraordinary meeting of the fifth session	www.sse.com.cn	12 September 2017
9 October 2017	2nd extraordinary meeting of the fifth session	www.sse.com.cn	10 October 2017
27 October 2017	3rd meeting of the fifth session	www.sse.com.cn	28 October 2017
28 December 2017	3rd extraordinary meeting of the fifth session	www.sse.com.cn	29 December 2017

Number of meetings of the Board of Directors held during the year	11
Of which: On-site meetings	6
Meetings convened by way of correspondence	5
Meetings convened on-site and by way of correspondence	-

## IV. Performance of duties by Directors

### (I) Attendance of meetings of the Board of Directors and the Shareholders' General Meeting

Name	Independent Non-executive Director	Attendance of meetings of the Board of Directors						Attendance of the Shareholders' General Meeting
		Required attendance during the year (times)	Attended in person (times)	Attended by way of correspondence (times)	Attended by proxy (times)	Absence (times)	Failed to attend meetings in person for two consecutive times	Attendance/ Required Attendance
Jin Yu	No	11	11	5	-	-	-	2/2
Hu Youlian	No	11	11	5	-	-	-	2/2
Jiang Hong	No	5	4	3	1	-	-	1/1
Ye Jun	No	11	11	5	-	-	-	2/2
Ying Xiaoming	No	11	10	5	1	-	-	1/2
Juan Manuel San Román López	No	11	11	5	-	-	-	2/2
Chen Xuyuan	No	11	8	5	3	-	-	0/2
Zhuang Zhe	No	5	4	3	1	-	-	0/1
Li Chaokun	No	11	10	5	1	-	-	1/2
Huang Xubin	No	11	8	5	3	-	-	0/2
David Sek-chi Kwok	No	11	11	5	-	-	-	2/2
Gan Xiangnan	No	1	1	1	-	-	-	0/0
Wan Jianhua	Yes	11	11	5	-	-	-	0/2
Guan Tao	Yes	5	5	3	-	-	-	1/1
Sun Zheng	Yes	5	5	3	-	-	-	1/1
Xu Jianxin	Yes	11	11	5	-	-	-	1/2
Gong Fangxiong	Yes	5	4	3	1	-	-	1/1
Shen Guoquan	Yes	5	5	3	-	-	-	1/1

## (II) Performance of duties by Independent Non-executive Directors

During the reporting period, Independent Non-executive Directors of the Bank faithfully performed their duties in accordance with the applicable laws and regulations and the Articles of Association by devoting over 15 working days for the Bank. Independent Non-executive Directors who are the chairmen of the Audit Committee, the Related-Party Transactions Committee and the Risk Management Committee have devoted more than 25 working days for the Bank. The Independent Non-executive Directors fully employed their expertise and practice in industries to provide opinions in an objective and prudent manner which facilitated the scientific decision making of the Board of Directors. The Independent Non-executive Directors maintained their independence when delivering objective and fair opinions on various major issues in accordance with the laws. The Independent Non-executive Directors who are the head of the committees gave special attention to the compliance of operation and the legality of procedures of the committees. For material decision making matters, they usually arranged relevant committees for prior review, followed by report of the heads to the Board of Directors in a timely manner to facilitate efficient, quality and effective decision making of the Board of Directors. The Independent Non-executive Directors have duly performed their duties and facilitated the corporate governance and sustainable and stable development of the Bank. Legal interests of shareholders, especially of minority shareholders, have been safeguarded.

## V. Committees under the Board of Directors

There are five committees under the Board of Directors, namely the Strategy Committee, Related-Party Transactions Committee, Risk Management Committee, Audit Committee and Nomination and Remuneration Committee. The committees duly implemented matters that were authorised by the Board of Directors and assisted the Board of Directors in decision making. The committees also fulfilled their supervisory duties with respect to strategies implementation, related-party transactions control and management, risk management, external audit, internal control and remuneration incentives. They also played a crucial role in improving the management and governance structure of the Bank and protection of the legal rights of investors.

### The Strategy Committee under the Board of Directors comprises the following members:

Jin Yu (chairperson), Hu Youlian, Ye Jun, Chen Xuyuan, Wan Jianhua, Guan Tao, Zhuang Zhe, Li Chaokun, David Sek-chi Kwok, Jiang Hong, Gan Xiangnan, Gong Fangxiong

### The Related-Party Transactions Committee under the Board of Directors comprises the following members:

Shen Guoquan (chairperson), Guan Tao, Xu Jianxin, Ying Xiaoming, Jiang Hong

### The Risk Management Committee under the Board of Directors comprises the following members:

Wan Jianhua (chairperson), Hu Youlian, Juan Manuel San Román López, Huang Xubin, Ying Xiaoming

### The Audit Committee under the Board of Directors comprises the following members:

Xu Jianxin (chairperson), Sun Zheng, Shen Guoquan, Ye Jun, Juan Manuel San Román López

### The Nomination and Remuneration Committee under the Board of Directors comprises the following members:

Sun Zheng (chairperson), Wan Jianhua, Gong Fangxiong, Ye Jun, Chen Xuyuan

## (I) Strategy Committee under the Board of Directors

During the reporting period, the Strategy Committee under the Board of Directors held two meetings and reviewed three issues. Based on its judgement of the economic development trends, the Committee regularly evaluated the implementation of the strategic plans and facilitated their completion. It formulated a new series of strategic plans. It also strengthened strategic cooperation between key business segments and facilitated capital replenishment. Continuous efforts were also made to promote integrated operations so as to accelerate the restructuring of the Bank.

### **(II) Related-Party Transactions Committee under the Board of Directors**

During the reporting period, the Related-Party Transactions Committee under the Board of Directors held six meetings and reviewed 12 issues. The Committee continued to enhance related-party transactions management in strict compliance with the related requirements of the CBRC and CSRC. It also confirmed and disclosed the list of related parties with timely update. The Committee enhanced general filing of related-party transactions and approval procedures of major related-party transactions, which continuously improved the quality of related-party transaction management.

### **(III) Risk Management Committee under the Board of Directors**

During the reporting period, the Risk Management Committee under the Board of Directors held four meetings and reviewed 15 issues. The Committee continued to facilitate the building of professionalised management system and refined risk appetite. It also enhanced the comprehensive risk control system to facilitate the implementation of the new capital accord. Risk supervision and evaluation as well as assets quality control were strengthened so as to improve the risk management level.

### **(IV) Audit Committee under the Board of Directors**

During the reporting period, the Audit Committee under the Board of Directors held six meetings and reviewed 19 issues. It completed the reappointment of audit firms and diligently guided the internal and external auditing. It prudently reviewed the financial statements to ensure the financial information was true, complete and accurate. It also facilitated the enhancement of the operation management through the revision and implementation of auditing management proposal.

### **(V) Nomination and Remuneration Committee under the Board of Directors**

During the reporting period, the Nomination and Remuneration Committee under the Board of Directors held five meetings and reviewed 11 issues. It diligently performed its duties in respect of facilitating the election of the Board of Directors, the review of qualification of senior management, the performance evaluation of Directors and the review of the term of senior management.

## **VI. Board of Supervisors**

### **(I) Basic information of the Board of Supervisors**

During the reporting period, the Board of Supervisors took responsibility to the Bank and shareholders by focusing on the missions under the Three-Year Development Plan and the major annual tasks. It also concentrated on major events of the Bank and continued to strengthen the supervision on financial, risk management and internal control to perform its supervision functions and promote the sound development of the Bank. The Board of Supervisors held nine meetings in total and reviewed 22 issues, including the development of the strategic business, risk prevention, internal control and financial position of the Bank, and provided objective and fair opinions and suggestions. All Supervisors duly attended various meetings and actively participated in the specific research activities organized by the Board of Supervisors, kept track of the bank-wide operation and management updates and duly supervised the implementation of resolutions of the shareholders' general meetings and the meetings of the Board of Directors. They monitored the duty performance of the Board of Directors, the senior management and relevant members so as to facilitate the stable and sound development of the Bank.

### **(II) Composition of the Board of Supervisors**

During the reporting period, the Board of Supervisors has four Supervisors. There are two employee Supervisors, namely Mr. Liu Jinan and Ms. Feng Xuefei, and two external Supervisors, namely Mr. Yuan Zhigang and Mr. Ge Ming.

### (III) Meetings of the Board of Supervisors

Supervisors	In person/Required attendance	By proxy/Required attendance	Attendance rate
Liu Jinan	9/9	0/9	100%
Yuan Zhigang	4/4	0/4	100%
Ge Ming	4/4	0/4	100%
Feng Xuefei	8/8	0/8	100%

### (IV) Explanation for the risks of the Bank identified by the Board of Supervisors

During the reporting period, the Board of Supervisors did not object to the matters under supervision during the reporting period.

## VII. Committees under the Board of Supervisors

### (I) Supervision Committee under the Board of Supervisors

The Supervision Committee under the Board of Directors has three Supervisors, including Yuan Zhigang (external Supervisor and chairperson), Ge Ming (external Supervisor) and Liu Jinan (Supervisor).

During the reporting period, with a focus on risk management and internal control, the Committee proactively carried out various regulatory works including organising specific research in relation to the consumption loan business of retail platform of the Bank so as to assist the Board of Supervisors to perform its duties.

### (II) Nomination Committee under the Board of Supervisors

The Nomination Committee under the Board of Supervisors has three Supervisors, including Ge Ming (external Supervisor and chairperson), Yuan Zhigang (external Supervisor) and Feng Xuefei (Supervisor).

During the reporting period, the Committee carried out assessments of the annual performance of the Board of Directors and its members, senior management and Supervisors to ensure their proper and diligent duty performance.

## VIII. Establishment and implementation of the appraisal and incentive mechanism for senior management during the reporting period

The Bank has basically established an internal incentive and disciplinary system in line with that of modern financial enterprises. In accordance with the Appraisal Plan of Senior Management of Bank of Shanghai, the Administrative Measures for Remunerations of Executive Officers of Bank of Shanghai and the Administrative Measures for Remuneration of Senior Management of Bank of Shanghai, the Board of Directors conducts appraisal on the senior management based on integrated assessments including team and individual performance, duties and positions, as well as years and terms of service. The appraisal result is associated with the annual remuneration. The Bank has established a system for postponed payment, retrieval and deduction of performance bonus for employees so that the remuneration payment period matches with the risk period of relevant business. Such system is applicable to all senior management. The Bank conducts regular evaluations on and continuous improvements in the implementation of the existing incentive and disciplinary system.

### IX. Internal control

The Bank has established a modern corporate governance structure mainly comprising the shareholders' general meeting as its authority, the Board of Directors as its decision-making body, the Board of Supervisors as its supervisory body and the senior management as its executive body. There is a clear division of responsibilities among the shareholders' general meeting, the Board, the Board of Supervisor and the senior management for checks and balances under such corporate governance structure. The internal control system can be separated into decision, execution and supervision functions being overseen by the person-in-charge of each branch and department to enable the participation of all employees in internal control.

The Bank has established an internal control framework covering internal control environment, risk identification and assessment, internal control activities, information and communication as well as monitoring. Such framework has conformed with the general objectives of internal control and optimised the coverage of internal control in various businesses and the whole process of business activities. A risk control matrix has been established covering entity level, application level and information technology. A list of streamlining has been prepared for the Bank, including the streamlining and updating of 107 tier-one business processes and 491 tier-two business processes. Through which, risks were identified and the abovementioned processes, internal control risks and related control activities were managed and refined through the internal risk control matrix.

During the reporting period, the Bank further improved its three-layer framework of regulations which comprising the basic, detailed and operation regulations. Internal control regulations were established for loan business, teller business, capital business, intermediary business, financial account and information system, respectively. The Bank currently has over 1,600 regulations.

Management of authorisation and sub-authorisation were strengthened by focusing on strict risk control, facilitating transformation and encouraging innovation. Business lines' annual authorisation have been moderately tightened and double development cores and specialised marketing have been supported. Stricter requirements have been imposed on the annual delegation proposals of tier-two branches. The Bank also strengthened the supervision and control in the process of authorisation and delegation and implemented authorisation check, rectification and dynamic adjustment on First, Second and Third Line of Defence. The abovementioned measures have facilitated a full coverage on the inspection of delegated units and matters.

Internal control guidance and communication mechanism was established based on comprehensive information on daily inspection, supervisory inspection and penalty, internal and external audit and compliance inspection. The Bank addressed and analysed internal control issues identified by various means to assist branches to analyse deficiencies in its internal control for 2016, and to guide the formulation of fundamental problem solving mechanism for its branches.

The Bank continued to promote Governance, With the establishment of management system of operating risk and internal control risks, organic integration of internal risk control matrix, internal control assessment management, internal issues rectification and non-compliance scorecard management has been accomplished. Usage of internal assessment management tools has been enhanced to realise an online maintenance and management of testing elements. A non-compliance scorecard model has been developed and a close-loop management of "inspection-rectification-scorecard" has been realised.

### X. Self-evaluation report on internal control

The Board of Directors of the Bank considered and approved the 2017 Evaluation Report on the Internal Control of Bank of Shanghai Co., Ltd. For details of the report, please refer to the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>).

## XI. Explanation of issues in relation to the internal control audit report

KPMG Huazhen (Special General Partnership) was engaged by the Bank to conduct an audit on the effectiveness of the internal control in relation to the financial report of the Bank, and was of the view that the Bank had maintained effective internal control in relation to the financial report in all material aspects as at 31 December 2017 in accordance with the Basic Regulations of Internal Control for Enterprises

## XII. Internal audit

The Bank has established an independent vertical management system for internal audit. During the reporting period, the Bank continued to strengthen the risk-oriented audit by adhering to its development strategy of becoming a "boutique bank" and the objective of increasing audit value, while audit performance and capability continued to improve. Internal audit played an important role in supporting and refining risk management, internal control and sustainable development of the Bank.

## XIII. Information disclosure and management of insider information

During the reporting period, the Bank has continuously developed its information disclosure policies and system. It has also established refined review and approval procedures for information disclosure. Regular reports and various ad hoc reports have been prepared and disclosed in a legal and compliant manner based on the principles of truthfulness, accuracy, completeness, timeliness and fairness so as to keep improving the transparency of its information disclosure.

The Bank made relevant information disclosure on the newspapers designated by the CSRC, namely China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily, as well as the website of Shanghai Stock Exchange (<http://www.sse.com.cn>).

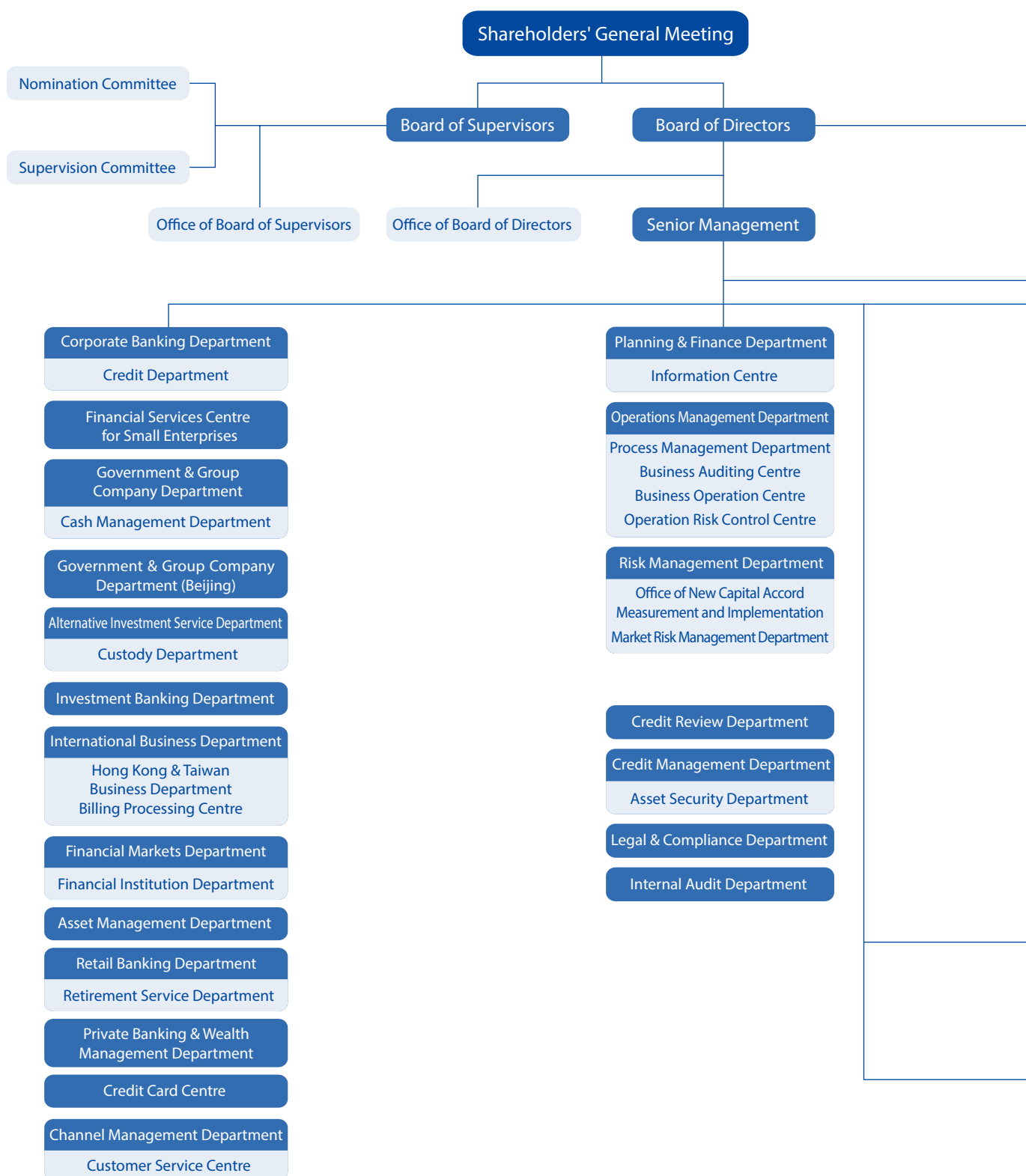
In order to regulate the management of insider information and the holders thereof and enhance the confidentiality of insider information, the Bank has formulated the Administrative Measures for Registration of the Holders of Insider Information of Bank of Shanghai Co., Ltd. in accordance with the regulations and requirements of the CSRC and other regulatory authorities. Since its listing, the Bank has continuously strengthened its management of insider information, enhanced the awareness of holders of insider information regarding confidentiality and compliance, and conducted registration and filing of holders of insider information.

## XIV. Management of investor relations

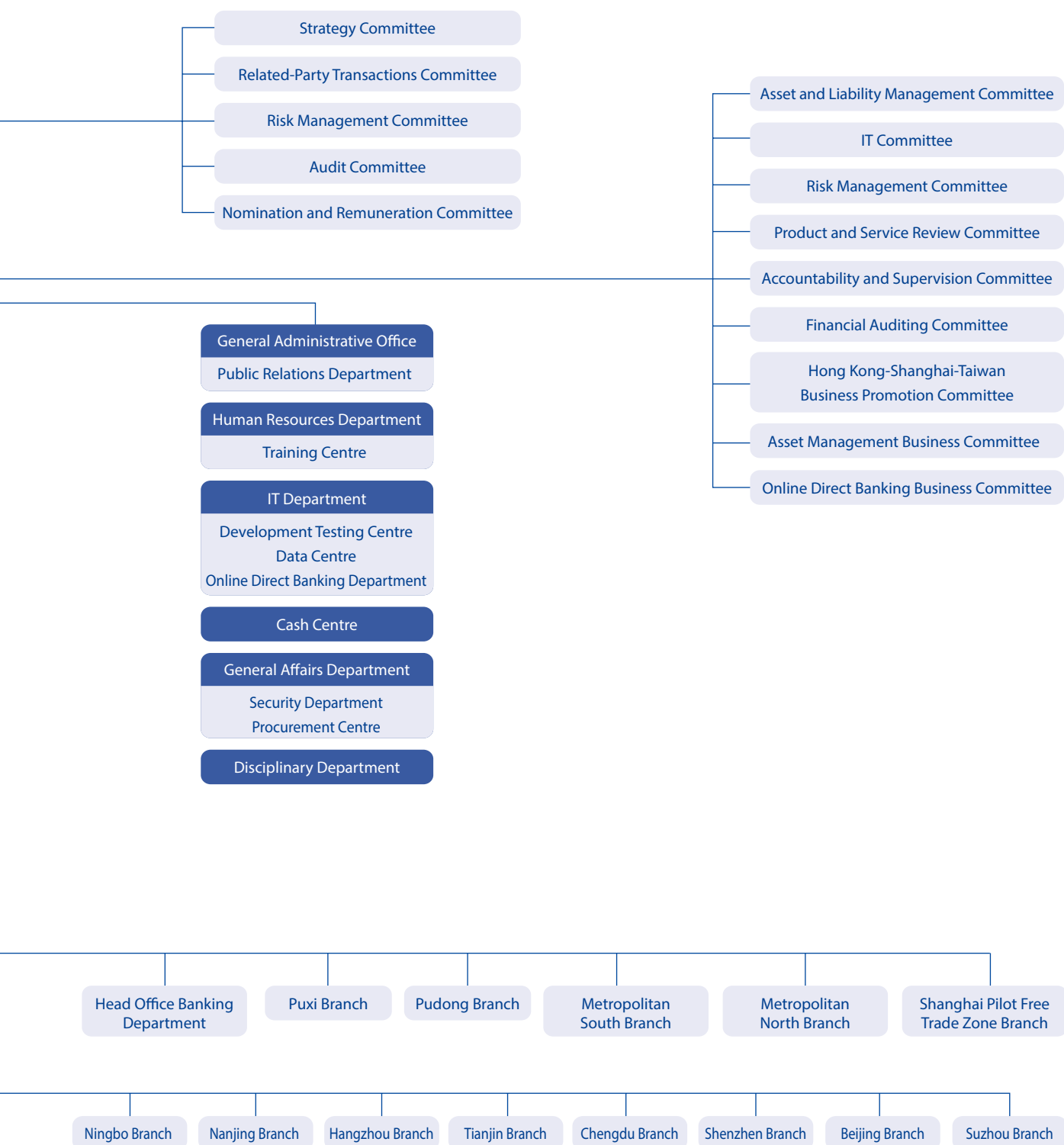
During the reporting period, the Bank has complied to the principles of compliance, fairness, integrity, transparency, interaction and efficiency. The Bank has continued to refine the management system of investor relationship and optimised the management model of investor relationship.

The Bank has strengthened its communication with the capital market and investors by means of holding shareholders' general meetings and results meetings, organising welcome activities for investors, arranging interviews and visits for institutional investors, participating in investors meetings held by the brokers as well as through investors hotline, email and official message board and Shanghai Stock Exchange E-Interaction. The Bank has also continued to deliver its strategic plans, operating results, featured business and business highlights and investment value to the market and improve the recognition of its investment value from the capital market and investors.

### XIII. Organisational Chart







# Bank of Shanghai

## Financial Report



The 2017 financial report of the Bank has been audited by KPMG Huazhen (Special General Partnership) and signed by Jin Naiwen and Zhang Chenchen, certified public accountants, with standard unqualified auditor's report being issued. For the full text of the financial report, please see the attachment.

# Bank of Shanghai

Documents Available for Inspection



**I. Financial statements bearing the signatures and seals of the Chairman of the Board of Directors, President, Vice President and Chief Financial Officer, and Head of Planning and Finance Department.**

**II. Originals of the audit reports bearing the seal of the accounting firm and the signatures and seals of certified public accountants.**

**III. Originals of all documents and announcements published by the Bank on the website designated by the CSRC during the reporting period.**

**IV. The Articles of Association of the Bank.**

Chairman:



The Board of Directors of Bank of Shanghai Co., Ltd.

20 April 2018

## Written Confirmation of the Directors and Senior Management of Bank of Shanghai Co., Ltd. on the 2017 Annual Report

Pursuant to the relevant provisions and requirements, as the Directors and senior management of the Bank, upon full understanding and review of the 2017 annual report and its summary, we hereby express the following views:

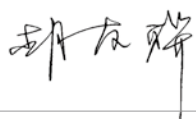
1. The Bank has strictly complied with the China Accounting Standards and relevant requirements in its operations, and the 2017 annual report and its summary has fairly reected the nancial position and operating results of the Bank during the reporting period.
2. The 2017 fnancial statements of the Bank have been audited by KPMG Huazhen (Special General Partnership) in accordance with Auditing Standards for the Chinese Certied Public Accountants respectively, with standard unqualified auditor's reports being issued.
3. We are of the view that, the 2017 annual report and its summary do not contain any misrepresentations, misleading statements or material omissions, and are individually and collectively responsible for its authenticity, accuracy and completeness.

20 April 2018

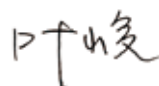
Signatures of our Directors and senior management are as follows:



Jin Yu



Hu Youlian



Ye Jun



Chen Xuyuan



Juan Manuel San Román  
López



Wan Jianhua



Guan Tao



Sun Zheng



Zhuang Zhe



Li Chaokun



Huang Xubin



David Sek-chi Kwok



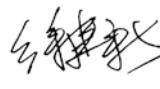
Jiang Hong



Ying Xiaoming



Gan Xiangnan



Xu Jianxin



Gong Fangxiang



Shen Guoquan



Shi Hongmin



Huang Tao



Hu Debin



Li Xiaohong

# Bank of Shanghai

## Auditors' Report And Financial Statements



# Auditor's Report

毕马威华振审字第 1801120 号

## All Shareholders of Bank of Shanghai Company Limited:

### Opinion

We have audited the accompanying financial statements of Bank of Shanghai Company Limited ("the Bank"), which comprise the consolidated and company balance sheets as at 31 December 2017, the consolidated and company income statements, the consolidated and company cash flow statements, the consolidated and company statements of changes in shareholders' equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company financial position of the Bank as at 31 December 2017, and the consolidated and company financial performance and cash flows of the Bank for the year then ended in accordance with Accounting Standards for Business Enterprises issued by the Ministry of Finance of the People's Republic of China.

### Basis for Opinion

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

### Key Audit Matters

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

#### Impairment of loans and receivables

Refer to the accounting policies in following notes to the Financial Statements:

Note III 7(2): Impairment of the Financial Assets;  
Note III 29: Significant Accounting Judgments and Estimates;  
Note V 8: Loans and Advances to Customers; and  
Note V 11: Investment securities classified as receivables.

The Key Audit Matter	How the matter was addressed in our audit
<p>Loans and receivables include Loans and Advances to Customers and Investment securities classified as receivables.</p> <p>Impairment of loans and receivables is a subjective area due to the degree of judgement applied by management in determining impairment allowances.</p> <p>From the Group's perspective, the portfolios which gave rise to the greatest uncertainty in determining impairment allowances for loans and advances to customers were those where impairments were derived from models approximating the impact of external environment and credit conditions on large portfolios of loans and advances to customers, and assessment of recoverable cash flows relating to individual loans and advances to customers, where loans and advances to customers were unsecured or were subject to potential collateral shortfalls.</p>	<p>Our audit procedures to assess impairment of loans and advances to customers included the following:</p> <ul style="list-style-type: none"><li>• assessing the design, implementation and operating effectiveness of key internal controls over the approval, recording, monitoring and restructuring of loans and advances to customers, the credit grading process and the measurement of impairment allowances for individually assessed loans and advances to customers;</li><li>• comparing the sum of impairment allowances of loans by credit quality across all grades with the allowances in the general ledger ;</li><li>• assessing the appropriateness of the Group's methodology of collective impairment allowances by testing the samples in order to evaluate whether the individual impairment allowances should be performed;</li></ul>



### Impairment of loans and receivables

Refer to the accounting policies in following notes to the Financial Statements:

Note III 7(2): Impairment of the Financial Assets;

Note III 29: Significant Accounting Judgments and Estimates;

Note V 8: Loans and Advances to Customers; and

Note V 11: Investment securities classified as receivables.

The Key Audit Matter	How the matter was addressed in our audit
<p>Individual impairment allowances are assessed by management once objective evidence of impairment becomes apparent in a corporate loan. Management exercises judgement in determining the quantum of loss based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, collateral valuation, the seniority of the claim and the existence and cooperativeness of other creditors. Whilst the Group appoints external valuers for the valuation of certain property and other illiquid collateral, enforceability, timing and means of realisation also affect the ultimate collectability and thereby the amount of impairment allowances as at the reporting date.</p> <p>The determination of the collective impairment allowances is dependent on the external macro environment and internal credit risk management models. The Group's collective impairment allowances for corporate loans and advances are derived from estimates including the Group's historical losses, the historical emergence period for corporate loans and advances (i.e. the time lapse between the occurrence of the event causing eventual default to the actual recording of a loss) and other adjustment factors. The Group's collective impairment allowances for personal loans are derived from estimates, including the Group's historical overdue data, historical loss experience for personal loans and other adjustment factors.</p> <p>We identified assessing impairment of loans and advances to customers as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results and capital of the Group.</p>	<ul style="list-style-type: none"> <li>• assessing the impairment allowances for individually impaired corporate loans and advances by selecting a risk-based sample for credit review. We analysed the loan portfolio by industry sector to select samples in industries vulnerable to the current economic slowdown. We also focused on loans with perceived higher risk and selected samples from nonperforming loans, overdue but performing loans and borrowers with negative warning signs or adverse press coverage. We also made use of our internal IT specialist to assess the logic of preparing the overdue loans;</li> <li>• performing credit assessments for the selected individually impaired corporate loans and advances by assessing the forecast of recoverable cash flows through inquiry, applying judgement and our own research. We evaluated the timing and means of realisation of collateral and considered other sources of repayment asserted by management. We also evaluated the consistency of management's application of key assumptions and compared them with our own data sources. Where available, we made use of post reporting date information to evaluate credit quality with hindsight;</li> <li>• evaluating the validity of the models used and assumptions adopted in the Group's calculation of the collective impairment allowances by critically assessing: <ul style="list-style-type: none"> <li>- input parameters involving management judgement;</li> <li>- economic factors used in the models;</li> <li>- the accuracy of the loan grading migration data for the corporate loan portfolios;</li> <li>- the overdue statistical data for the personal loan portfolios; and</li> <li>- historical loss parameters used.</li> </ul> </li> <li>• considering, as part of the procedures above, the nature of and reasons for any revisions to the key assumptions and input parameters in the models, the consistency of judgement applied in the use of economic factors, the loss emergence period and the observation period for historical losses and assessing key internal controls over the input of underlying data into the models. We compared the economic factors used in the models to market information to assess whether they were aligned with market and economic development. We also assessed the emergence period by tracing the lifecycle of overdue accounts from the specific credit event to downgrading the account to a non-performing loan;</li> <li>• assessing the appropriateness of the Group's methodology of collective impairment allowances and testing the model calculations;</li> <li>• assessing the disclosures in the consolidated financial statements in relation to impairment of loans and advances to customers with reference to the requirements of the prevailing accounting standards.</li> </ul>

# Auditor's Report

## Consolidation of structured entities

Refer to the accounting policies in following notes to the Financial Statements:

Note III 4: Business combination and consolidated financial statements,

Note III 29: Significant Accounting Judgments and Estimates and

Note VI 3: Involvement with Unconsolidated Structured Entities.

The Key Audit Matter	How the matter was addressed in our audit
<p>Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities.</p> <p>The Group may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity, through issuing a wealth management product, an investment fund, an asset management plan, a trust plan, a structured lease or an asset-backed security.</p> <p>In determining whether the Group should retain any partial interests in a structured entity or should consolidate a structured entity, management is required to consider the risks and rewards retained, the power the Group is able to exercise over the activities of the entity and its ability to influence the Group's own returns from the entity. These factors are not purely quantitative and need to be considered collectively in the overall substance of the transactions.</p> <p>We identified the recognition of interests in and consolidation of structured entities as a key audit matter because of the complex nature of certain of these structured entities and because of the judgement exercised by management in the qualitative assessment of the terms and nature of each entity.</p>	<p>Our audit procedures to assess the recognition of interests in and consolidation of structured entities included the following:</p> <ul style="list-style-type: none"> <li>• understanding and assessing the design and implementation of internal control relating to the judgement process over whether a structured entity is consolidated or not;</li> <li>• selecting significant structured entities of each key product type and performing the following procedures for each structured entity selected: <ul style="list-style-type: none"> <li>- inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity;</li> <li>- inspecting the risk and reward structure of the structured entity, including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns, to assess management's judgement as to the exposure, or rights, to variable returns from the Group's involvement in such an entity;</li> <li>- evaluating management's analysis of the structured entity, including qualitative analysis and the calculation of the magnitude and variability associated with the Group's economic interests in the structured entity, to assess management's judgement over the Group's ability to influence its own returns from the structured entity;</li> <li>- assessing management's judgement over whether the structured entity should be consolidated or not;</li> </ul> </li> <li>• evaluating the disclosures relating to structured entities in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.</li> </ul>

## Fair value of financial instruments

Refer to the accounting policies in following notes to the Financial Statements:

Note III 7: Financial Instruments,

Note III 16: Fair value measurement,

Note III 29: Significant Accounting Judgments and Estimates; and

Note XV: Fair Value of Financial Instruments.

The Key Audit Matter	How the matter was addressed in our audit
<p>Financial instruments carried at fair value account for a significant part of the Group's assets. The effect of fair value adjustments may impact either the profit or loss or other comprehensive income.</p> <p>The valuation of the Group's financial instruments, held at fair value, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from readily available data, in particular for level 1 and level 2 financial instruments in the fair value hierarchy, the valuation techniques for which use quoted market prices and observable inputs, respectively. Where such observable data is not readily available, as in the case of level 3 financial instruments, then estimates need to be developed which can involve significant management judgement.</p>	<p>Our audit procedures to assess the fair value of financial instruments included the following:</p> <ul style="list-style-type: none"> <li>• assessing the design, implementation and operating effectiveness of key internal controls over the valuation, independent price verification, front office and back office reconciliations and model approval for financial instruments;</li> <li>• assessing the level 1 fair values, on a sample basis, by comparing the fair values applied by the Group with publicly available market data;</li> </ul>

### Fair value of financial instruments

Refer to the accounting policies in following notes to the Financial Statements:

Note III 7: Financial Instruments,

Note III 16: Fair value measurement,

Note III 29: Significant Accounting Judgments and Estimates; and

Note XV: Fair Value of Financial Instruments.

The Key Audit Matter	How the matter was addressed in our audit
<p>The Group has developed its own models to value certain level 2 and level 3 financial instruments, which also involve significant management judgement.</p> <p>We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the degree of judgement exercised by management in determining the inputs used in the valuation models.</p>	<ul style="list-style-type: none"> <li>• engaging our internal valuation specialists to assist us in performing independent valuations, on a sample basis, of level 2 and level 3 financial instruments and comparing our valuations with the Group's valuations. Our procedures included developing parallel models, obtaining inputs independently and verifying the inputs;</li> <li>• assessing whether the disclosures in the consolidated financial statements, including fair value hierarchy information and sensitivity to key inputs, appropriately reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards.</li> </ul>

## Other Information

The Bank's management is responsible for the other information. The other information comprises all the information included in 2017 annual report of the Bank, other than the financial statements and our auditor's report thereon.

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

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

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

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Accounting Standards for Business Enterprises, and for the design, implementation and maintenance of such internal control necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

# Auditor's Report

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

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

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

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

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



Certified Public Accountants  
Registered in the People's Republic of China

(Signed on Chinese original)  
Jin Naiwen



(Signed on Chinese original)  
Zhang Chenchen



20 April 2018

# Financial Statements (Expressed in thousands of Renminbi, unless otherwise stated)

## Bank of Shanghai Company Limited Consolidated balance sheet and balance sheet

(Expressed in thousands of Renminbi)

	Note	The Group		The Bank	
		As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
<b>Assets</b>					
Cash and deposits with central bank	V. 1	136,063,645	137,037,351	135,523,343	136,673,595
Deposits with banks and other financial institutions	V. 2	38,788,136	17,931,224	37,744,874	17,280,322
Placements with banks and other financial institutions	V. 3	97,178,409	97,739,416	93,130,197	93,270,864
Financial assets at fair value through profit or loss	V. 4	11,554,237	7,145,338	11,050,447	6,473,922
Derivative financial assets	V. 5	839,088	1,361,893	822,813	1,359,328
Financial assets held under resale agreements	V. 6	25,808,851	19,257,167	23,695,961	13,690,657
Interests receivable	V. 7	7,680,426	7,354,580	7,547,582	7,230,997
Loans and advances to customers	V. 8	643,191,324	537,396,525	624,607,395	519,846,814
Available-for-sale financial assets	V. 9	420,684,813	432,146,185	417,714,561	430,504,759
Held-to-maturity investments	V. 10	264,262,868	236,540,182	264,068,510	236,540,182
Investment securities classified as receivables	V. 11	136,701,386	240,323,404	142,540,469	250,816,418
Long-term equity investments	V. 12	395,131	18,423	4,245,839	3,870,724
Fixed assets	V. 13	4,394,538	4,449,419	4,309,326	4,356,886
Intangible assets	V. 14	510,670	579,615	498,476	566,819
Deferred tax assets	V. 15	7,783,439	5,032,889	7,740,186	4,992,007
Other assets	V. 16	11,929,977	11,057,491	11,714,657	10,847,845
<b>Total assets</b>		<b>1,807,766,938</b>	<b>1,755,371,102</b>	<b>1,786,954,636</b>	<b>1,738,322,139</b>

The notes on pages 133 to 220 form part of these financial statements.

## Bank of Shanghai Company Limited Consolidated balance sheet and balance sheet (continued)

(Expressed in thousands of Renminbi)

	Note	The Group		The Bank	
		As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
<b>Liabilities and equity</b>					
<b>Liabilities</b>					
Borrowings from central bank		81,605,000	110,590,000	81,500,000	110,500,000
Deposits from banks and other financial institutions	V. 18	328,654,261	282,015,735	329,069,326	282,326,170
Placements from banks and other financial institutions	V. 19	51,801,096	49,370,879	49,938,427	48,156,575
Financial liabilities at fair value through profit or loss	V. 20	-	307,656	-	307,656
Derivative financial liabilities	V. 5	1,359,342	1,520,235	1,343,268	1,472,837
Financial assets sold under repurchase agreements	V. 21	78,573,169	91,351,541	78,359,419	91,137,791
Deposits from customers	V. 22	923,585,324	849,073,364	909,146,324	836,964,770
Employee benefits payable	V. 23	2,978,946	2,459,595	2,834,423	2,313,810
Taxes payable	V. 24	4,144,141	2,103,423	4,129,098	2,066,726
Interests payable	V. 25	16,570,559	15,849,413	16,404,001	15,722,175
Debt securities issued	V. 26	168,148,078	231,080,385	165,625,190	229,346,179
Deferred tax liabilities	V. 15	55,741	40,284	-	-
Other liabilities	V. 27	2,849,878	3,389,978	2,704,565	3,262,215
<b>Total liabilities</b>		<b>1,660,325,535</b>	<b>1,639,152,488</b>	<b>1,641,054,041</b>	<b>1,623,576,904</b>
<b>Equity</b>					
Share capital	V. 28	7,805,785	6,004,450	7,805,785	6,004,450
Other equity instruments	V. 29	19,957,170	-	19,957,170	-
Capital reserve	V. 30	28,452,203	30,253,538	28,452,203	30,253,538
Other comprehensive income	V. 31	(571,337)	496,194	(789,144)	124,620
Surplus reserve	V. 32	26,435,300	22,227,344	26,435,300	22,227,344
General reserve	V. 33	25,780,256	21,245,093	25,630,000	21,130,000
Retained earnings	V. 34	39,125,759	35,542,604	38,409,281	35,005,283
<b>Total equity attributable to equity shareholders of the Bank</b>		<b>146,985,136</b>	<b>115,769,223</b>	<b>145,900,595</b>	<b>114,745,235</b>
<b>Non-controlling interests</b>		<b>456,267</b>	<b>449,391</b>	<b>-</b>	<b>-</b>
<b>Total equity</b>		<b>147,441,403</b>	<b>116,218,614</b>	<b>145,900,595</b>	<b>114,745,235</b>
<b>Total liabilities and equity</b>		<b>1,807,766,938</b>	<b>1,755,371,102</b>	<b>1,786,954,636</b>	<b>1,738,322,139</b>

These financial statements were approved by the Board of Directors of the Bank on 20 April 2018.

Jin Yu  
Chairman




Hu Youlian  
President



Shi Hongmin  
Vice President and  
Chief Financial Officer



Zhou Ning  
Head of Planning and  
Finance department



The notes on pages 133 to 220 form part of these financial statements.

# Financial Statements (Expressed in thousands of Renminbi, unless otherwise stated)

## Bank of Shanghai Company Limited

### Consolidated statement of comprehensive income and statement of comprehensive income

(Expressed in thousands of Renminbi)

	Note	The Group		The Bank	
		2017	2016	2017	2016
Interest income		60,082,285	60,651,931	59,252,748	60,047,355
Interest expense		(40,964,976)	(34,653,822)	(40,615,603)	(34,439,277)
<b>Net interest income</b>	V. 35	<b>19,117,309</b>	<b>25,998,109</b>	<b>18,637,145</b>	<b>25,608,078</b>
Fee and commission income		6,785,558	6,484,309	6,470,486	6,069,162
Fee and commission expense		(529,772)	(327,465)	(528,039)	(326,178)
<b>Net fee and commission income</b>	V. 36	<b>6,255,786</b>	<b>6,156,844</b>	<b>5,942,447</b>	<b>5,742,984</b>
Net investment gains	V. 37	9,636,523	1,648,500	9,680,438	1,556,388
Net (losses) / gains from changes in fair value	V. 38	(5,569,912)	2,119,075	(5,623,788)	2,159,524
Net foreign exchange gains / (losses)		3,535,189	(1,609,515)	3,447,820	(1,598,359)
Other operating incomes		111,090	95,800	107,557	91,426
Gains / (losses) from asset disposals		9,905	(5,296)	9,905	(5,296)
Other income		29,105	-	10,464	-
<b>Operating income</b>		<b>33,124,995</b>	<b>34,403,517</b>	<b>32,211,988</b>	<b>33,554,745</b>
Taxes and surcharges		(343,679)	(714,649)	(341,519)	(704,607)
General and administrative expenses	V. 39	(8,105,358)	(7,875,911)	(7,775,519)	(7,522,090)
Impairment losses	V. 40	(8,671,315)	(9,576,344)	(8,357,088)	(9,462,210)
Other operating expenses		(18,920)	(28,704)	(18,854)	(28,594)
<b>Operating expenses</b>		<b>(17,139,272)</b>	<b>(18,195,608)</b>	<b>(16,492,980)</b>	<b>(17,717,501)</b>
<b>Operating profit</b>		<b>15,985,723</b>	<b>16,207,909</b>	<b>15,719,008</b>	<b>15,837,244</b>
Add: Non-operating income		122,727	181,290	122,644	154,568
Less: Non-operating expenses		(25,988)	(69,826)	(25,389)	(69,132)
<b>Profit before tax</b>		<b>16,082,462</b>	<b>16,319,373</b>	<b>15,816,263</b>	<b>15,922,680</b>
Less: Income tax expense	V. 41	(745,669)	(1,994,309)	(702,084)	(1,896,160)
<b>Net profit for the year</b>		<b>15,336,793</b>	<b>14,325,064</b>	<b>15,114,179</b>	<b>14,026,520</b>
Net profit classified by continuity of operations:					
Net profit from continuing operations		15,336,793	14,325,064	15,114,179	14,026,520
Net profit from discontinued operations		-	-	-	-
Attributable to:					
Shareholders of the Bank		15,328,499	14,308,265	15,114,179	14,026,520
Non-controlling interests		8,294	16,799	-	-



## Bank of Shanghai Company Limited Consolidated statement of comprehensive income and statement of comprehensive income (continued)

(Expressed in thousands of Renminbi)

	Note	The Group		The Bank	
		As at 31 December 2017	As at 31 December 2016	As at 31 December 2017	As at 31 December 2016
<b>Other comprehensive income, net of tax</b>	V.31	<b>(1,056,287)</b>	<b>(1,397,034)</b>	<b>(913,764)</b>	<b>(1,514,153)</b>
Other comprehensive income attributable to equity shareholders of the Bank, net of tax		(1,067,531)	(1,390,830)	(913,764)	(1,514,153)
Items that may be reclassified to profit or loss:					
Gains or losses arising from changes in fair value of available-for-sale financial assets		(797,075)	(1,591,238)	(913,764)	(1,514,153)
Translation differences arising on translation of foreign currency financial statements		(270,456)	200,408	-	-
Other comprehensive income attributable to non-controlling interests, net of tax		11,244	(6,204)	-	-
<b>Total comprehensive income for the year</b>		<b>14,280,506</b>	<b>12,928,030</b>	<b>14,200,415</b>	<b>12,512,367</b>
<b>Total comprehensive income attributable to: Equity shareholders of the Bank</b>		<b>14,260,968</b>	<b>12,917,435</b>	<b>14,200,415</b>	<b>12,512,367</b>
<b>Total comprehensive income attributable to: Non-controlling interests</b>		<b>19,538</b>	<b>10,595</b>	<b>-</b>	<b>-</b>
<b>Basic and diluted earnings per share (RMB)</b>		<b>1.96</b>	<b>2.01</b>		

These financial statements were approved by the Board of Directors of the Bank on 20 April 2018.

Jin Yu  
Chairman



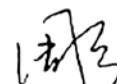
Hu Youlian  
President



Shi Hongmin  
Vice President and  
Chief Financial Officer



Zhou Ning  
Head of Planning and  
Finance department



The notes on pages 133 to 220 form part of these financial statements.



# Financial Statements (Expressed in thousands of Renminbi, unless otherwise stated)

## Bank of Shanghai Company Limited Consolidated cash flow statement and cash flow statement

(Expressed in thousands of Renminbi)

	Note	The Group		The Bank	
		2017	2016	2017	2016
<b>Cash flows from operating activities:</b>					
Net decrease in deposits with banks and other financial institutions		-	31,809,228	-	23,800,968
Net decrease in financial assets held under resale agreements		3,318,166	10,854,295	-	-
Net increase in borrowings from central bank		-	104,186,829	-	104,200,000
Net increase in deposits from banks and other financial institutions		46,638,526	-	46,743,156	-
Net increase in placements from banks and other financial institutions		2,849,969	18,732,493	2,201,604	19,121,245
Net increase in financial liabilities at fair value through profit or loss		-	296,413	-	296,413
Net increase in financial assets sold under repurchase agreements		-	43,886,594	-	44,711,594
Net increase in deposits from customers		74,511,960	56,393,478	72,181,554	53,473,448
Interest receipts		34,971,309	31,804,371	33,906,851	27,681,028
Fee and commission receipts		7,137,539	6,687,796	6,843,180	6,272,649
Proceeds from other operating activities		2,101,384	1,329,518	1,927,476	1,195,046
<b>Sub-total of cash inflows</b>		<b>171,528,853</b>	<b>305,981,015</b>	<b>163,803,821</b>	<b>280,752,391</b>
Net increase in deposits with central bank		(1,425,972)	(4,340,431)	(1,329,294)	(4,409,551)
Net increase in deposits with banks and other financial institutions		(13,459,129)	-	(13,425,869)	-
Net increase in placements with banks and other financial institutions		(13,713,482)	(14,791,981)	(13,051,174)	(17,633,049)
Net increase in financial asset at fair value through profit or loss		(4,475,348)	(2,537,593)	(4,652,980)	(2,387,078)
Net increase in loans and advances to customers		(113,112,779)	(21,273,765)	(111,703,210)	(12,681,375)
Net decrease in borrowings from central bank		(28,985,000)	-	(29,000,000)	-
Net decrease in deposits from banks and other financial institutions		-	(49,323,045)	-	(49,191,107)
Net decrease in financial liabilities at fair value through profit or loss		(308,102)	-	(308,102)	-
Net increase in financial assets held under repurchase agreements		(12,952,609)	-	(12,952,609)	-
Interest payments		(30,026,941)	(27,391,916)	(29,643,182)	(27,262,212)
Fee and commission payments		(529,772)	(327,465)	(528,039)	(326,178)
Payment to and for employees		(4,426,302)	(4,358,148)	(4,209,785)	(4,175,591)
Payment of various taxes		(3,617,487)	(5,610,598)	(3,505,414)	(5,460,294)
Payment for other operating activities		(5,263,219)	(5,180,161)	(4,918,240)	(5,102,073)
<b>Sub-total of cash outflows</b>		<b>(232,296,142)</b>	<b>(135,135,103)</b>	<b>(229,227,898)</b>	<b>(128,628,508)</b>
<b>Net cash (outflow) / inflows from operating activities</b>	V.42(1)	<b>(60,767,289)</b>	<b>170,845,912</b>	<b>(65,424,077)</b>	<b>152,123,883</b>



## Bank of Shanghai Company Limited Consolidated cash flow statement and cash flow statement (continued)

(Expressed in thousands of Renminbi)

	Note	The Group		The Bank	
		2017	2016	2017	2016
<b>Cash flows from investing activities:</b>					
Proceeds from disposal of investments		865,773,123	2,006,166,391	876,164,871	2,028,638,554
Investment returns received		37,461,386	29,801,500	37,726,324	33,301,400
Net proceeds from disposal of long-term assets		26,658	133,671	26,181	133,671
<b>Sub-total of cash inflows</b>		<b>903,261,167</b>	<b>2,036,101,562</b>	<b>913,917,376</b>	<b>2,062,073,625</b>
Payment for acquisition of investments		(784,339,587)	(2,335,589,667)	(788,905,346)	(2,343,536,878)
Payment for acquisition of long-term assets		(498,855)	(1,353,649)	(487,798)	(1,227,488)
<b>Sub-total of cash outflows</b>		<b>(784,838,442)</b>	<b>(2,336,943,316)</b>	<b>(789,393,144)</b>	<b>(2,344,764,366)</b>
<b>Net cash inflow / (outflows) from investing activities</b>		<b>118,422,725</b>	<b>(300,841,754)</b>	<b>124,524,232</b>	<b>(282,690,741)</b>
<b>Cash flows from financing activities:</b>					
Proceeds from investors		-	10,461,290	-	10,461,290
Proceeds from issuance of other equity instruments		19,957,170	-	19,957,170	-
Proceeds from issuance of debentures		595,399,798	351,743,307	592,170,164	349,661,741
<b>Sub-total of cash inflows</b>		<b>615,356,968</b>	<b>362,204,597</b>	<b>612,127,334</b>	<b>360,123,031</b>
Repayment of debt securities		(665,723,240)	(249,925,968)	(663,380,000)	(246,990,000)
Interest paid on debt securities		(2,629,736)	(855,743)	(2,627,511)	(792,090)
Dividends paid		(2,997,406)	(41,568)	(2,980,444)	(36,467)
<b>Sub-total of cash outflows</b>		<b>(671,350,382)</b>	<b>(250,823,279)</b>	<b>(668,987,955)</b>	<b>(247,818,557)</b>
<b>Net cash (outflow) / inflows from financing activities</b>		<b>(55,993,414)</b>	<b>111,381,318</b>	<b>(56,860,621)</b>	<b>112,304,474</b>
Effect of foreign exchange rate changes on cash and cash equivalents		(543,994)	497,441	(477,826)	422,116
Net increase / (decrease) in cash and cash equivalents	V. 42(2)	1,118,028	(18,117,083)	1,761,708	(17,840,268)
<b>Add: cash and cash equivalents at the beginning of the year</b>		<b>83,954,898</b>	<b>102,071,981</b>	<b>79,959,462</b>	<b>97,799,730</b>
<b>Cash and cash equivalents at the end of the year</b>	V. 42(3)	<b>85,072,926</b>	<b>83,954,898</b>	<b>81,721,170</b>	<b>79,959,462</b>

These financial statements were approved by the Board of Directors of the Bank on 20 April 2018.

Jin Yu  
Chairman



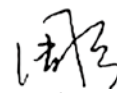
Hu Youlian  
President



Shi Hongmin  
Vice President and  
Chief Financial Officer



Zhou Ning  
Head of Planning and  
Finance department



The notes on pages 133 to 220 form part of these financial statements.

# Financial Statements (Expressed in thousands of Renminbi, unless otherwise stated)

## Bank of Shanghai Company Limited Consolidated statement of changes in shareholders' equity

(Expressed in thousands of Renminbi)

For the year ended 31 December 2017										
Note	The Group								Non-controlling interests	Total
	Attributable to equity shareholders of the Bank									
	Paid-in capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Sub-total		
Balance at 1 January 2017	6,004,450	-	30,253,538	496,194	22,227,344	21,245,093	35,542,604	115,769,223	449,391	116,218,614
Changes in equity for the year										
1.Other comprehensive income	-	-	-	(1,067,531)	-	-	15,328,499	14,260,968	19,538	14,280,506
2.Shareholders' contributions										
- Contribution by holders of other equity instruments	V. 29	-	19,957,170	-	-	-	-	19,957,170	-	19,957,170
3.Appropriation of profits										
- Appropriation for surplus reserve	V. 32	-	-	-	4,207,956	-	(4,207,956)	-	-	-
- Appropriation for general reserve	V. 33	-	-	-	-	4,535,163	(4,535,163)	-	-	-
- Distributions to shareholders	V. 34	-	-	-	-	-	(3,002,225)	(3,002,225)	(12,662)	(3,014,887)
4.Transfers within equity										
- Share capital increased by capital reserve transfer	V. 30	1,801,335	-	(1,801,335)	-	-	-	-	-	-
Balance at 31 December 2017	7,805,785	19,957,170	28,452,203	(571,337)	26,435,300	25,780,256	39,125,759	146,985,136	456,267	147,441,403

These financial statements were approved by the Board of Directors of the Bank on 20 April 2018.

Jin Yu  
Chairman



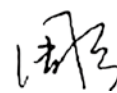
Hu Youlian  
President



Shi Hongmin  
Vice President and  
Chief Financial Officer



Zhou Ning  
Head of Planning and  
Finance department



The notes on pages 133 to 220 form part of these financial statements.



上海银行  
Bank of Shanghai

## Bank of Shanghai Company Limited Consolidated statement of changes in shareholders' equity (continued)

(Expressed in thousands of Renminbi)

	Note	For the year ended 31 December 2016								Total
		The Group								
		Attributable to equity shareholders of the Bank							Non-controlling interests	
		Paid-in capital	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Sub-total		
Balance at 1 January 2016		5,404,000	20,392,698	1,887,024	18,402,914	16,668,113	29,635,749	92,390,498	443,897	92,834,395
Changes in equity for the year										
1.Other comprehensive income		-	-	(1,390,830)	-	-	14,308,265	12,917,435	10,595	12,928,030
2.Shareholders' contributions										
- Contribution by ordinary shareholders	V. 28	600,450	9,860,840	-	-	-	-	10,461,290	-	10,461,290
3.Appropriation of profits										
- Appropriation for surplus reserve	V. 32	-	-	-	3,824,430	-	(3,824,430)	-	-	-
- Appropriation for general reserve	V. 33	-	-	-	-	4,576,980	(4,576,980)	-	-	-
- Distributions to shareholders	V. 34	-	-	-	-	-	-	-	(5,101)	(5,101)
Balance at 31 December 2016		6,004,450	30,253,538	496,194	22,227,344	21,245,093	35,542,604	115,769,223	449,391	116,218,614

These financial statements were approved by the Board of Directors of the Bank on 20 April 2018.

Jin Yu  
Chairman



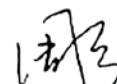
Hu Youlian  
President



Shi Hongmin  
Vice President and  
Chief Financial Officer



Zhou Ning  
Head of Planning and  
Finance department



The notes on pages 133 to 220 form part of these financial statements.

# Financial Statements (Expressed in thousands of Renminbi, unless otherwise stated)

## Bank of Shanghai Company Limited Statement of changes in shareholders' equity

(Expressed in thousands of Renminbi)

For the year ended 31 December 2017									
Note	The Bank								
	Paid-in capital	Other equity instruments	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total	
Balance at 1 January 2017	6,004,450	-	30,253,538	124,620	22,227,344	21,130,000	35,005,283	114,745,235	
Changes in equity for the year									
1.Other comprehensive income	-	-	-	(913,764)	-	-	15,114,179	14,200,415	
2.Shareholders' contributions									
- Contribution by holders of other equity instruments	V.9	19,957,170	-	-	-	-	-	19,957,170	
3.Appropriation of profits									
- Appropriation for surplus reserve	V.32	-	-	-	4,207,956	-	(4,207,956)	-	
- Appropriation for general reserve	V.33	-	-	-	-	4,500,000	(4,500,000)	-	
- Distributions to shareholders	V.34	-	-	-	-	-	(3,002,225)	(3,002,225)	
4.Transfers within equity									
- Share capital increased by capital reserve transfer	V.30	1,801,335	-	(1,801,335)	-	-	-	-	
Balance at 31 December 2017	7,805,785	19,957,170	28,452,203	(789,144)	26,435,300	25,630,000	38,409,281	145,900,595	

For the year ended 31 December 2016								
Note	The Bank							
	Paid-in capital	Capital reserve	Other comprehensive income	Surplus reserve	General reserve	Retained earnings	Total	
Balance at 1 January 2016	5,404,000	20,392,698	1,638,773	18,402,914	16,600,000	29,333,193	91,771,578	
Changes in equity for the year								
1.Other comprehensive income	-	-	(1,514,153)	-	-	14,026,520	12,512,367	
2.Shareholders' contributions								
- Contribution by ordinary shareholders	V.28	600,450	9,860,840	-	-	-	10,461,290	
3.Appropriation of profits								
- Appropriation for surplus reserve	V.32	-	-	3,824,430	-	(3,824,430)	-	
- Appropriation for general reserve	V.33	-	-	-	4,530,000	(4,530,000)	-	
Balance at 31 December 2016	6,004,450	30,253,538	124,620	22,227,344	21,130,000	35,005,283	114,745,235	

These financial statements were approved by the Board of Directors of the Bank on 20 April 2018.

Jin Yu  
Chairman



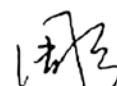
Hu Youlian  
President



Shi Hongmin  
Vice President and  
Chief Financial Officer



Zhou Ning  
Head of Planning and  
Finance department



The notes on pages 133 to 220 form part of these financial statements.

# Bank of Shanghai Company Limited

## Notes to the financial statements

*(Expressed in thousands of Renminbi)*

### I. General information

With the approval from the People's Bank of China (the PBOC), Bank of Shanghai Co., Ltd. (formerly known as Shanghai City United Bank Ltd., hereinafter referred to as the "Bank" or Bank of Shanghai) was incorporated in Shanghai, PRC, on 30 January 1996 as a joint-stock commercial bank. With the approval from PBOC, the Bank changed its name from Shanghai City United Bank Ltd. to Bank of Shanghai Company Limited on July 16, 1998. The Bank obtained a financial business certificate No.B0139H231000001 with the approval from the China Banking Regulatory Committee (the CBRC) and obtained a business license with unified social credit code 91310000132257510M issued by the Shanghai Municipal Administration of Industry and Commerce.

In 1999, pursuant to a shareholders' resolution and approval from the PBOC (Shanghai Yin Fu [1999] No. 722), the Bank increased its registered capital from RMB1,606 million to RMB2,000 million. The Bank issued 394 million new shares at a price of RMB2.12 per share with par value of RMB1 per share.

In 2001, pursuant to a shareholders' resolution and approval from the PBOC (Shanghai Yin Fu [2001] No. 436), the Bank increased its registered capital from RMB2,000 million to RMB2,600 million. The Bank issued 600 million new shares at a price of RMB2.49 per share with par value of RMB1 per share.

In 2010, pursuant to a shareholders' resolution and approval from the CBRC (Yin Jian Fu [2010] No. 62), the Bank increased its registered capital from RMB2,600 million to RMB2,900 million. The Bank issued 300 million new shares at a price of RMB12.43 per share with par value of RMB1 per share.

In 2010, pursuant to a shareholders' resolution and with approval from the CBRC (Yin Jian Fu [2010] No. 188), the Bank increased 1,334 million new ordinary shares to all the shareholders by transferring from capital reserve according to 0.46 share free for every 1 share. The share capital of the Bank was increased from RMB2,900 million to RMB4,234 million by transferring.

In 2013, pursuant to a shareholder's resolution and approval from the CBRC (Hu Yin Jian Fu [2013] No. 833), the Bank issued 470 million new shares at a price of RMB13.9 per share with par value of RMB1 per share. The share capital of the Bank was subsequently increased from RMB4,234 million to RMB4,704 million after the Bank obtained a renewed business license on February 2014.

Pursuant to the Shareholders' resolutions, approvals from the CBRC (Hu Yin Jian Fu [2014] No. 908 and Hu Yin Jian Fu [2015] No. 339), the Bank issued 700 million new shares in total at a price of RMB16.57 per share with par value of RMB1 per share in 2014 and 2015. The share capital of the Bank was subsequently increased from RMB4,704 million to RMB5,404 million after the Bank obtained a renewed business licence on June 2015.

Pursuant to the Shareholders' resolutions, approvals from the China Securities Regulatory Commission (the CSRC) (Zheng Jian Xu Ke [2016] No. 1638), the Bank issued 600.45 million common shares (A share) through initial public offering at a price of RMB17.77 per share in Nov 2016. On 16 Nov 2016, the shares were listed for transactions on Shanghai Stock Exchange. The share capital of the Bank was subsequently increased by RMB600 million. The Bank's registered capital was 6,004 million. The stock code of the Bank is 601229.

Pursuant to the Shareholders' resolutions, approvals from the CBRC (Hu Yin Jian Fu [2017] No. 398), the Bank increased 3 shares per 10 shares by capital reserve on basis of the share capital as at 31 December 2016 which was 6,004,450 thousand shares. The share capital of the Bank was increased by RMB1,801,335 thousand and increased to RMB7,805,785 thousand shares subsequently. In addition, pursuant to the Shareholders' resolutions, approvals from the CSRC (Zheng Jian Xu Ke [2017] No. 2197), the Bank privately issued 200 million preference shares at price of RMB100.00.

For the purpose of these financial statements, "Mainland China" refers to the PRC excluding the Hong Kong Special Administrative Region of the PRC ("Hong Kong"), the Macau Special Administrative Region of the PRC ("Macau") and Taiwan. "Outside Mainland China" refers to Hong Kong, Macau, Taiwan and other countries and regions.

The principal activities of the Bank and its subsidiaries (hereinafter collectively referred to as the "Group") are the provision of corporate and retail deposits, treasury, investment banking, fund management, asset management and other financial services.

## II. Basis of preparation

The financial statements have been prepared on the basis of going concern.

## III. Significant accounting policies and accounting estimates of the Bank

### 1. Statement of compliance

The financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises issued by the Ministry of Finance (MOF) of the People's Republic of China (PRC). These financial statements present truly and completely the consolidated financial position and financial position of the Bank as at 31 December 2017, and the consolidated financial performance and financial performance and the consolidated cash flows and cash flows of the Bank for the year then ended.

These financial statements also comply with the disclosure requirements of "Regulation on the Preparation of Information Disclosures by Companies Issuing Securities, No. 15: General Requirements for Financial Reports" as revised by the China Securities Regulatory Commission ("CSRC") in 2014.

### 2. Accounting year

The accounting year of the Group is from 1 January to 31 December.

### 3. Functional currency

The Bank's functional currency is Renminbi ("RMB") and these financial statements are presented in RMB. Functional currency is determined by the Group on the basis of the currency in which major income and costs are denominated and settled. The Bank translates the financial statements of subsidiaries from their respective functional currencies into the Bank's functional currency (see Note III.6) if the subsidiaries' functional currencies are not the same as that of the Bank.

### 4. Business combination and consolidated financial statements

#### (1) Business combinations involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. Where (1) the aggregate of the acquisition-date fair value of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, exceeds (2) the acquirer's interest in the acquisition-date fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill (see Note III.14). If (1) is less than (2), the difference is recognised in profit or loss for the current period. The costs of issuing equity or debt securities as a part of the consideration for the acquisition are included in the carrying amounts of these equity or debt securities upon initial recognition. Other acquisition-related costs are expensed when incurred. Any difference between the fair value and the carrying amount of the assets transferred as consideration is recognised in profit or loss. The acquiree's identifiable asset, liabilities and contingent liabilities, if the recognition criteria are met, are recognised by the Group at their acquisition-date fair value. The acquisition date is the date on which the acquirer obtains control of the acquiree.

For a business combination involving entities not under common control and achieved in stages, the Group remeasures its previously-held equity interest in the acquiree to its acquisition-date fair value and recognises any resulting difference between the fair value and the carrying amount as investment income for the current period. In addition, any amount recognised in other comprehensive income that may be reclassified to profit or loss, in prior reporting periods relating to the previously-held equity interest, and any other changes in the owners' equity under equity accounting, are transferred to investment income in the period in which the acquisition occurs (see Note III.10(2)).

#### (2) Consolidated financial statements

##### General principles

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the

Bank and its subsidiaries. Control exists when the investor has all of following: power over the investee; exposure, or rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered. The financial position, financial performance and cash flows of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests are presented separately in the consolidated balance sheet within shareholders' equity. Net profit or loss attributable to non-controlling shareholders is presented separately in the consolidated income statement below the net profit line item. Total comprehensive income attributable to non-controlling shareholders is presented separately in the consolidated income statement below the total comprehensive income line item.

When the amount of loss for the current period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' share of the opening owners' equity of the subsidiary, the excess is still allocated against the non-controlling interests.

When the accounting period or accounting policies of a subsidiary are different from those of the Bank, the Bank makes necessary adjustments to the financial statements of the subsidiary based on the Bank's own accounting period or accounting policies. Intra-group balances and transactions, and any unrealised profit or loss arising from intra-group transactions, are eliminated when preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, unless they represent impairment losses that are recognised in the financial statements.

### Subsidiaries acquired through a business combination

Where a subsidiary was acquired during the reporting period, through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements based on the carrying amounts of the assets and liabilities of the subsidiary in the financial statements of the ultimate controlling party as if the combination had occurred at the date that the ultimate controlling party first obtained control.

## 5. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, non-restricted balances with central bank, short-term deposits and placements with banks and other financial institutions, financial assets held under resale agreements, and highly liquid short-term investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

## 6. Foreign currency transactions and foreign currency translation

When the Group receives capital in foreign currencies from investors, the capital is translated to Renminbi at the spot exchange rate at the date of the receipt. Other foreign currency transactions are, on initial recognition, translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates on the dates of the transactions. A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences are generally recognised in profit or loss, unless they arise from the re-translation of the principal and interest of specific borrowings for the acquisition, and construction or production of qualifying assets. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rate at the date the fair value is determined. The resulting exchange differences are recognised in profit or loss, except for the differences arising from the re-translation of available-for-sale financial assets, which are recognised in other comprehensive income.

In translating the financial statements of a foreign operation, assets and liabilities of foreign operation are translated to Renminbi at the spot exchange rate at the balance sheet date. Equity items, excluding retained earnings and the translation differences in other comprehensive income, are translated to Renminbi at the spot exchange rates at the transaction dates. Income and expenses of foreign operation are translated to Renminbi at the spot exchange rates or the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income. The translation differences accumulated in shareholders' equity with respect to a foreign operation are transferred to profit or loss in the period when the foreign operation is disposed.



## 7. Financial instruments

### (1) Recognition and measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any related directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any related directly attributable transaction costs are included in their initial costs. Subsequent to initial recognition, financial assets and liabilities are measured as follows:

#### - Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)

A financial asset or financial liability is classified at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;
- the financial assets or financial liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

#### - Loans and receivables

Loans and receivables are non-derivative financial assets held by the Group with fixed or determinable recoverable amounts that are not quoted in an active market, other than

- those that the Group intends to sell immediately or in the near future, which will be classified as held for trading;
- those that the Group, upon initial recognition, designated as at fair value through profit or loss or as available-for-sale; or
- those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Loans and receivables mainly comprise deposits with central bank, deposits and placements with banks and other financial institutions, financial assets held under resale agreements, loans and advances to customers and investment securities classified as receivables. Subsequent to initial recognition, loans and receivables are stated at amortised cost using the effective interest method.

#### - Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than

- those that the Group, upon initial recognition, designated as at fair value through profit or loss or as available-for-sale; or
- those that meet the definition of loans and receivables.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method.

## - Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated upon initial recognition as available for sale and other financial assets which do not fall into any of the above categories.

Available-for-sale investments in equity instruments whose fair value cannot be measured reliably are measured at cost subsequent to initial recognition. Other available-for-sale financial assets are measured at fair value subsequent to initial recognition and changes therein are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses from monetary financial assets which are recognised directly in profit or loss. When an investment is derecognised, the gain or loss accumulated in other comprehensive income is reclassified to profit or loss. Dividend income is recognised in profit or loss when the investee approves the dividends. Interest is recognised in profit or loss using the effective interest method.

## - Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Liabilities other than those arising from financial guarantee contracts as stated in Note III.22 are measured at amortised cost using the effective interest method.

## **(2) Impairment of financial assets**

The carrying amounts of financial assets (other than those at fair value through profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is recognised.

Objective evidence that a financial asset is impaired includes but is not limited to:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;
- (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (d) the disappearance of an active market for that financial asset because of financial difficulties faced by the issuer;
- (e) significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of an investment in an equity instrument may not be recovered by the investor;
- (f) a significant (i.e. a decline of 50%) or prolonged decline in the fair value (i.e. a decline persisting for 12 months of an investment in an equity instrument below its cost.

### Loans and receivables

The Group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

### Individual assessment

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. The impairment losses are recognised in profit or loss.

It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment losses if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

### Collective assessment

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

For homogeneous groups of loans and receivables that are not considered individually significant, the Group adopts a flow rate methodology to collectively assess impairment losses. This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an adjustment of observable data that reflects the current economic conditions and judgment based on management's historical experience.

Loans and receivables which are individually significant and therefore have been individually assessed but for which no objective evidence of impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This assessment covers those loans and receivables that were impaired at the balance sheet date but which will not be individually identified as such until sometime in the future.

The collective impairment loss is assessed after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics;
- the emergence period between a loss occurring and that loss being identified; and
- the current economic and credit environments and judgement on inherent loss based on management's historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the Group operates.

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a portfolio, those assets are removed from the portfolio of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provision for impairment losses.

### - Loans and receivables written-off and impairment reversal

If, in a subsequent period, the amount of the impairment losses on loans and receivables decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

When the Group determines that a loan has no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loan is written off against its provision for impairment losses upon necessary approval. If in a subsequent period the loan written off is recovered, the amount recovered will be recognised in profit or loss through impairment losses.

### - Rescheduled loans and receivables

Rescheduled loans and receivables are loans that have been restructured due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans and receivables are assessed individually and classified as impaired loans and advances upon restructuring. Rescheduled loans and receivables are subject to ongoing monitoring. Once a rescheduled loan or receivables meets specific conditions, it is no longer considered as impaired.

### - Held-to-maturity investments

Held-to-maturity investments are assessed for impairment on an individual basis and on a collective group basis as follows.

Where impairment is assessed on an individual basis, the impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. Impairment losses are recognised in profit or loss.

The assessment is made collectively where held-to-maturity investments share similar credit risk characteristics (including those not having been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable factors reflecting current economic conditions.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

### - Available-for-sale financial assets

Available-for-sale financial assets are assessed for impairment on an individual and / or on a collective group basis. When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is reclassified to the profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity is the difference between the acquisition cost net of any principal repayment and amortisation and current fair value, less any impairment losses on that financial asset previously recognised in profit or loss.

If, after an impairment loss has been recognised on available-for-sale debt instruments, the fair value of the assets increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. An impairment loss recognised for an equity instrument classified as available-for-sale is not reversed through profit or loss but recognised directly in other comprehensive income. The impairment loss on an investment in unquoted equity instrument whose fair value cannot be reliably measured is not reversed.

When there are impairments on equity investments where the Group does not have control, joint control or significant influence, and the investments are not quoted in an active market and their fair value cannot be reliably measured, the Group will recognise the difference between their carrying values and the present values of similar assets discounted at future cash flow based on their current market yields, which are accounted for as impairment losses in profit or loss. Such impairment losses cannot be reversed.

### **(3) Derecognition of financial assets and financial liabilities**

A financial asset is derecognised when one of the following conditions is met:

- the Group's contractual rights to the cash flows from the financial asset expire;
- the financial asset has been transferred and the Group transfers substantially all of the risks and rewards of ownership of the financial asset; or
- the financial asset has been transferred, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

Where a transfer of a financial asset in its entirety meets the criteria for derecognition, the difference between the two amounts below is recognised in profit or loss:

- the carrying amount of the financial asset transferred;
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in shareholders' equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset. The financial liability (or part of it) is derecognised only when its contractual obligation (or part of it) is discharged or cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in profit or loss.

### (4) Presentation of financial assets and financial liabilities

Financial assets and financial liabilities are generally presented separately in the balance sheet, and are not offset. However, a financial asset and a financial liability are offset and the net amount is presented in the balance sheet when both of the following conditions are satisfied:

- the Group currently has a legally enforceable right to set off the recognised amounts;
- the Group intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

### (5) Equity instrument

The consideration received from the issuance of equity instruments net of transaction costs is recognised in shareholders' equity. Consideration and transaction costs paid by the Bank for repurchasing self-issued equity instruments are deducted from shareholders' equity.

### (6) Preference shares

At initial recognition, the Group classifies the preference shares issued as financial assets, financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial assets, financial liabilities and equity instruments.

Preference shares issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of dividends or interests during the instruments' duration is treated as profit appropriation. When the preference shares and perpetual bonds are redeemed according to the contractual terms, the redemption price is charged to equity.

## 8. Financial assets held under resale and sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

## 9. Precious metals

Precious metals represent gold and silver. Precious metals that are acquired by the Group are initially recognised at fair value when they are obtained or repurchased and subsequently carried at fair value, with changes in fair value recognised in profit or loss.

## 10. Long-term equity investments

### (1) Investment cost of long-term equity investments

For a long-term equity investment acquired through a business combination not involving enterprises under common control, the initial cost comprises the aggregate of the fair value of assets transferred, liabilities incurred or assumed, and equity securities issued by the Bank, in exchange for control of the acquiree.

A long-term equity investment acquired other than through a business combination is initially recognised at the amount of cash paid if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities.

### (2) Subsequent measurement of long-term equity investment

#### (a) Investments in subsidiaries

In the Bank's separate financial statements, long-term equity investments in subsidiaries are accounted for using the cost



method for subsequent measurement unless the investment is classified as held for sale (see Note III.31). Except for cash dividends or profit distributions declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Bank recognises its share of the cash dividends or profit distributions declared by the investee as investment income for the current period.

The investments in subsidiaries are stated in the balance sheet at cost less accumulated impairment losses. For the impairment of the investments in subsidiaries, refer to Note III.15.

In the Group's consolidated financial statements, subsidiaries are accounted for in accordance with the policies described in Note III.4.

### (b) Investment in joint ventures and associates

A joint venture is an arrangement whereby the Group and other parties have joint control and rights to the net assets of the arrangement.

An associate is an enterprise over which the Group has significant influence.

An investment in a joint venture or an associate is accounted for using the equity method for subsequent measurement, unless the investment is classified as held for sale.

The accounting treatments under the equity method adopted by the Group are as follows:

- Where the initial cost of a long-term equity investment exceeds the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at cost. Where the initial investment cost is less than the Group's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is recognised in profit or loss.

- After the acquisition of the investment, the Group recognises its share of the investee's profit or loss and other comprehensive income as investment income or losses and other comprehensive income respectively, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profit distributions, the carrying amount of the investment is reduced by the amount attributable to the Group. Changes in the Group's share of the investee's owners' equity, other than those arising from the investee's net profit or loss, other comprehensive income or profit distribution (referred to as "other changes in owners' equity"), is recognised directly in the Group's equity, and the carrying amount of the investment is adjusted accordingly.

- In calculating its share of the investee's net profits or losses, other comprehensive income and other changes in owners' equity, the Group recognises investment income and other comprehensive income after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair value of the investee's identifiable net assets at the date of acquisition. Unrealised profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the associates or joint ventures. Unrealised losses resulting from transactions between the Group and its associates or joint ventures are eliminated in the same way as unrealised gains but only to the extent that there is no impairment.

- The Group discontinues recognising its share of further losses of the investee after the carrying amount of the long-term equity investment and any long-term interest that in substance forms part of the Group's net investment in the joint venture or associate is reduced to zero, except to the extent that the Group has an obligation to assume additional losses. If the joint venture or associate subsequently reports net profits, the Group resumes recognising its share of those profits only after its share of the profits has fully covered the share of losses not recognised.

For the impairment of the investments in joint ventures and associates, refer to Note III.15.

### **(3) Criteria for determining the existence of joint control or significant influence over an investee**

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (activities with significant impact on the returns of the arrangement) require the unanimous consent of the parties sharing control.

The following factors are usually considered when assessing whether the Group can exercise joint control over an investee:

- Whether no single participant party is in a position to control the investee's related activities unilaterally;
- Whether strategic decisions relating to the investee's related activities require the unanimous consent of all participant

## Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

parties that sharing of control.

Significant influence is the power to participate in the financial and operating policy decisions of an investee but does not have control or joint control over those policies.

### 11. Fixed assets and construction in progress

Fixed assets represent tangible assets held by the Group for administrative purposes with useful lives over one accounting year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note III.15). Construction in progress is stated in the balance sheet at cost less impairment loss (see Note III.15).

The cost of a purchased fixed asset comprises the purchase price, related taxes, and any directly attributable expenditure for bringing the asset to working condition for its intended use.

Where the parts of an item of fixed assets have different useful lives or provide benefits to the Group in different patterns, thus necessitating use of different depreciation rates or methods, each part is recognised as a separate fixed asset.

Any subsequent costs including the cost of replacing part of an item of fixed assets are recognised as assets if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fixed assets are recognised in profit or loss as incurred.

The carrying amount of a fixed asset is derecognised:

- When the fixed asset is for disposal; or
- When no future economic benefit is expected to be generated from its use or disposal.

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item, and are recognised in profit or loss on the date of retirement or disposal.

The cost of fixed asset, less its estimated residual value and accumulated impairment losses, is depreciated using the straight-line method over its estimated useful life. The estimated useful lives, residual values and depreciation rates of each class of fixed assets are as follows:

Types of assets	Estimated useful lives	Estimated residual values	Depreciation rates
Premises	20 - 30 years	5%	3.17% ~ 4.75%
Electronic equipment	10 years	5%	9.5%
Furniture and fixtures	3 - 5 years	5%	19% ~ 31.67%
Motor vehicles	5 years	5%	19%

Useful lives, estimated residual values and depreciation methods are reviewed at least each year-end.

The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to working condition for its intended use. Construction in progress is transferred to fixed assets when the item being constructed is ready for its intended use. No depreciation is provided against construction in progress.

### 12. Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note III.15). For an intangible asset with finite useful life, its cost less estimated residual value and accumulated impairment losses is amortised using the straight-line method over its estimated useful life.

The respective amortisation periods for intangible assets are as follows:

Types of assets	Amortisation period (years)
Land use right	20 - 50 years
Software	3 - 5 years
Other intangible assets	10 - 20 years

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group. At the end of the balance sheet, the Group does not have any intangible assets with indefinite useful lives.

### 13. Repossessed assets

Repossessed assets are physical assets or property rights obtained by the Group from debtors, warrantors or third parties following the enforcement of its creditor's rights. Repossessed assets is initially recognised at fair value and subsequently carried at lower of the carrying amount and the recoverable amount. If the recoverable amount of an repossessed asset is less than its carrying amount, the carrying amount of the repossessed asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss. Repossessed assets are not depreciated nor amortised. The impairment losses of initial measurement and subsequent re-measurement are charged to profit or loss.

Impairment losses on repossessed assets are accounted for in accordance with the accounting policies as set out in Note III.15.

### 14. Goodwill

The initial cost of goodwill represents the excess of cost of acquisition over the acquirer's interest in the fair value of the identifiable net assets of the acquiree under a business combination not involving enterprises under common control.

Goodwill is not amortised and is stated in the balance sheet at cost less accumulated impairment losses (see Note III.15). On disposal of an asset group or a set of asset groups, any attributable goodwill is written off and included in the calculation of the profit or loss on disposal.

### 15. Impairment of non-financial assets

The carrying amounts of the following assets are reviewed at each balance sheet date based on internal and external sources of information to determine whether there is any indication of impairment:

- fixed assets and construction in progress
- intangible assets
- long-term equity investments
- repossessed assets
- goodwill
- long-term deferred expenses and etc.

If any indication exists, the recoverable amount of the asset is estimated. In addition, the Group estimates [the recoverable amounts of intangible assets not ready for use at least annually and] the recoverable amounts of goodwill [and intangible assets with indefinite useful lives] at each year-end, irrespective of whether there is any indication of impairment. Goodwill is allocated to each asset group or set of asset groups, which is expected to benefit from the synergies of the combination for the purpose of impairment testing.

The recoverable amount of an asset, asset group or set of asset groups is the higher of its fair value (Note III.16) less costs to sell and its present value of expected future cash flows. An asset group is composed of assets directly related to cash-generation and is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups.

The present value of expected future cash flows of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using an appropriate pre-tax discount rate.

An impairment loss is recognised in profit or loss when the recoverable amount of an asset is less than its carrying amount. A provision for impairment of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups, and then to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, such allocation would not reduce the carrying amount of an asset below the highest of its fair value less costs to sell (if measurable), its present value of expected future cash flows (if determinable) and zero.



Once an impairment loss is recognised, it is not reversed in a subsequent period.

### 16. Fair value measurement

Unless otherwise specified, the Group determines fair value measurement as below:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value, the Group takes into account the characteristics of the particular asset or liability (including the condition and location of the asset and restrictions, if any, on the sale or use of the asset) that market participants would consider when pricing the asset or liability at the measurement date, and uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. Valuation techniques mainly include the market approach, the income approach and the cost approach.

### 17. Employee benefits

#### (1) Short-term employee benefits

Employee wages or salaries, bonuses, social security contributions such as medical insurance, work injury insurance, maternity insurance and housing fund, measured at the amount incurred or accrued at the applicable benchmarks and rates, are recognised as a liability as the employee provides services, with a corresponding charge to profit or loss or included in the cost of assets where appropriate.

#### (2) Post-employment benefits - defined contribution plans

The defined contribution plans in which the Group participated include:

- Pursuant to the relevant laws and regulations of the People's Republic of China, the Group participated in a defined contribution basic pension insurance and unemployment insurance in the social insurance system established and managed by government organisations. The Group makes contributions to basic pension insurance and unemployment insurance plans based on the applicable benchmarks and rates stipulated by the government;
- Pursuant to "Trial Measures for Enterprise Annuity" (Order of the Ministry of Labor and Social Security of the People's Republic of China No. 20), the Group's employees participated in the enterprise annuity plan that was approved by the Board of Directors and submitted to the labor and social security authority. The Group makes contributions calculated in accordance with the annuity plan scheme.
- Eligible employees in the Bank's overseas subsidiaries participated in local contribution schemes. The Bank's overseas subsidiaries make contributions for the employees in accordance with local laws and regulations.

Defined contributions are recognised as part of the cost of assets or charged to profit or loss as the related services are rendered by the employees.

#### (3) Termination benefits

When the Group terminates the employment with employees before the employment contracts expire, or provides compensation under an offer to encourage employees to accept voluntary redundancy, a provision is recognised with a corresponding expense in profit or loss at the earlier of the following dates:

- When the Group cannot unilaterally withdraw the offer of termination benefits because of an employee termination plan or a curtailment proposal;
- When the Group has a formal detailed restructuring plan involving the payment of termination benefits and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

#### (4) Other long-term employee benefits

The Group recognises the deferred award provided for employees and the deferred payment of salaries to key management based on business performance during the periods of service provided by employees and key management, as liabilities and as part of the cost of assets or charged to profit or loss.

## 18. Government grants

Government grants are non-reciprocal transfers of monetary or non-monetary assets from the government to the Group except for capital contributions from the government in the capacity as an investor in the Group. A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value.

Government grants related to assets are grants whose primary condition is that the Group qualifying for them should purchase, construct or otherwise acquire long-term assets. Government grants related to income are grants other than those related to assets. A grant that compensates the Group for expenses or losses to be incurred in the future is recognised as deferred income, and included in other income or non-operating income in the periods in which the expenses or losses are recognised. Or included in other income or non-operating income directly.

## 19. Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or items recognised directly in equity (including other comprehensive income).

Current tax is the expected tax payable calculated at the applicable tax rate on taxable income for the year, plus any adjustment to tax payable in respect of previous years.

At the balance sheet date, current tax assets and liabilities are offset only if the Group has a legally enforceable right to set them off and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and deferred tax liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or deductible loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the balance sheet date, deferred tax is measured based on the tax consequences that would follow from the expected manner of recovery or settlement of the carrying amounts of the assets and liabilities, using tax rates enacted at the reporting date that are expected to be applied in the period when the asset is recovered or the liability is settled.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date, and is reduced to the extent that it is no longer probable that the related tax benefits will be utilised. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

At the balance sheet date, deferred tax assets and deferred tax liabilities are offset if all of the following conditions are met:

- the taxable entity has a legally enforceable right to offset current tax liabilities and current tax assets;
- different taxable entities which intend either to settle the current tax liabilities and current tax assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or deferred tax assets are expected to be settled or recovered.

## 20. Operating leases

### (1) Operating lease charges

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are expensed as incurred.

### (2) Assets leased out under operating leases

Fixed assets leased out under operating leases are depreciated in accordance with the Group's depreciation policies described in Note III.11. Impairment losses are recognised in accordance with the accounting policies described in Note III.15. Income derived from operating leases is recognised in profit or loss using the straight-line method over the lease term. If initial direct

costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent rentals are recognised as income as they are earned.

### 21. Provisions

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where there is a continuous range of possible outcomes for the expenditure required, and each possible outcome in that range is as likely as any other, the best estimate is the mid-point of that range. In other cases, the best estimate is determined according to the following circumstances:

- Where the contingency involves a single item, the best estimate is the most likely outcome;
- Where the contingency involves a large population of items, the best estimate is determined by weighting all possible outcomes by their associated probabilities.

The Group reviews the carrying amount of a provision at the balance sheet date and adjusts the carrying amount to the current best estimate.

### 22. Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Liabilities arising from financial guarantees are recognised initially at fair value and the initial fair value is amortised over the life of the guarantee. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contracts has become probable. Financial guarantees are included within other liabilities.

### 23. Fiduciary activities

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding ("entrusted funds") to the Group, and the Group grants loans to third parties ("entrusted loans") under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

### 24. Income recognition

Revenue is the gross inflow of economic benefits arising in the course of the Group's ordinary activities when the inflows result in increase in shareholders' equity, other than increase relating to contributions from shareholders. Revenue is recognised in profit or loss when it is probable that the economic benefits will flow to the Group, the revenue and costs can be measured reliably and the following conditions are met:

#### (1) Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all

contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

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

### (2) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without making a loan, the fee is recognised as fee and commission income upon its expiry.

### (3) Dividend income

Dividend income from unlisted equity investment is recognised in profit or loss on the date when the Group's right to receive payment is established. Dividend income from a listed equity investment is recognised when the share price of the investment goes ex-dividend.

### (4) Other income

Other income is recognised on an accrual basis.

## 25. Expenses

### (1) Interest expenses

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

### (2) Other expenses

Other expenses are recognised on an accrual basis.

## 26. Dividend distribution

Dividends or profit distributions proposed in the profit appropriation plan, which will be authorised and declared after the end of the Relevant Periods, are not recognised as a liability at the end of the Relevant Periods but disclosed in the notes to the financial statements separately.

## 27. Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties.

In addition to the related parties stated above, the Group or the Bank determines related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC.

## 28. Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system after taking the materiality principle into account. Two or more operating segments may be aggregated into a single operating segment if the segments have the similar economic characteristics and are same or similar in respect of the nature of each segment's products and services, the nature of production processes, the types or classes of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of the actual transaction prices for such transactions for segment reporting. Segment accounting policies are consistent with those for the consolidated financial statements.

## 29. Significant accounting estimates and judgments

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates as well as underlying assumptions and uncertainties involved are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Except for accounting estimates relating to depreciation and amortisation of assets such as fixed assets and intangible assets (see Notes III.11 and 12) and provision for impairment of various types of assets (see Notes V.3, 8, 9, 10, 11, 13, 14 and 16). Other significant accounting estimates are as follows:

- (i) Note V.15: Recognition of deferred tax assets;
- (ii) Note XV: Fair value measurements of financial instruments and investment properties.

Significant judgements made by the Group in the application of accounting policies are as follows:

- (i) Note V.29: Preference shares classified as financial liabilities or equity instruments; and
- (ii) Note VI: Significant judgements and assumptions in determining control, joint control or significant influence over other entity.

## 30. Changes in significant accounting policies and accounting estimates

### (a) Description and reasons of changes in accounting policies

The MOF issued the Accounting Standards for Business Enterprises No. 42 – Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations ("CAS 42") and the revised Accounting Standards for Business Enterprises No. 16 – Government Grants ("CAS 16 (2017)") respectively in April and May. The effective dates of CAS 42 and CAS 16 (2017) are 28 May 2017 and 12 June 2017 respectively.

In addition, the MOF issued the "Notice on Revision of the Illustrative Financial Statements" (Caikuai [2017] No.30) in December 2017. The Group has prepared financial statements for the year ended 31 December 2017 in accordance with this document.

Impacts of the adoption of the above accounting standards and regulation are as follows:

#### (i) Held for sale and discontinued operations

Pursuant to the requirements of CAS 42 relating to the classification, measurement and presentation of non-current assets or disposal groups held for sale and the presentation of discontinued operations, the Group has revisited the existing non-current assets or disposal groups held for sale and discontinued operations as of 28 May 2017, and applied the related accounting policies prospectively. The adoption of CAS 42 has no material effect on the financial position and financial performance of the Group.

#### (ii) Government grants

Pursuant to CAS 16 (2017), the Group has revisited the existing government grants as of 1 January 2017, and applied the related accounting policies prospectively. The Group's accounting treatment and disclosures of the government grants in 2016 are based on the previously applicable CAS requirements before the issuance of CAS 16 (2017).

The impact of adoption of CAS 16 (2017) is as follows:

- A government grant related to income previously recognised as non-operating income is reclassified as other income in the income statement based on the economic substance if the government grant received is related to the Group's ordinary activities. The government grant is included in non-operating income or expenses if it is not related to the Group's ordinary activities.

#### (iii) Gains from asset disposals

The Group has prepared financial statements for the year ended 31 December 2017 in accordance with Caikuai [2017] No.30. Comparative figures have been adjusted retrospectively.

According to this regulation, the Group has added a separate line item "Gains from asset disposals" in the income statement. Gains or losses from disposals of non-current assets (excluding financial instruments and long-term equity investment) or disposal groups classified as held for sale, and gains or losses from disposals of fixed assets, construction in progress, and intangible assets not classified as held for sale are included in this item. In addition, gains or losses from disposals of non-current assets arising from debt restructuring or gains or losses from non-monetary exchanges are included in this item. The above gains or losses were previously presented in "Non-operating income" or "Non-operating expenses".

## IV. Taxation

The Bank and its domestic subsidiaries' main applicable taxes and tax rates are as follows:

Tax type	Tax basis and Tax rate
Value-added tax (VAT)	Output VAT is calculated on 6% of the product sales and taxable services revenue. The basis for VAT payable is to deduct input VAT from the output VAT for the period. Part of VAT is calculated on 3% ~ 17% of the product sales and taxable services revenue.
Business tax	Before 1 May 2016, business tax is calculated on 3% ~ 5% of the taxable revenue. According to Caishui [2016] No. 36, jointly issued by MOF and the State Administration of Taxation, all taxpayers subject to business tax in China are included in the scope of the VAT pilot scheme. Effective from 1 May 2016, the Bank are required to pay VAT in lieu of business tax.
City maintenance and construction tax	1%-7% of business tax and VAT paid
Education surcharge	5% of business tax and VAT paid
Income tax	25% of taxable income

Shanghai Minhang BoS Rural Bank Co., Ltd. ("Minhang Rural"), Jiangsu Jiangning BoS Rural Bank Co., Ltd. ("Jiangning Rural"), Chongzhou BoS Rural Bank Co., Ltd. ("Chongzhou Rural") and Zhejiang Quzhou Qujiang BoS Rural Bank Co., Ltd. ("Qujiang Rural"), as subsidiary of the Bank, is calculated on taxable services revenue's 3% for the VAT according to Simple tax method.

Overseas subsidiaries pay income tax according to local regulations.

## V. Notes to the consolidated financial statements

### 1. Cash and deposits with central bank

	Note	The Group		The Bank	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
Cash on hand		2,072,258	1,905,637	2,063,514	1,898,826
Deposits with domestic central bank					
- Statutory deposit reserves	(i)	123,011,258	120,637,845	122,756,503	120,479,768
- Surplus deposit reserves	(ii)	10,224,071	12,929,076	10,113,157	12,757,391
- Foreign exchange risk reserves	(iii)	411,831	1,427,521	411,831	1,427,521
- Fiscal deposits		178,338	110,089	178,338	110,089
Deposits with overseas central banks	(iv)	165,889	27,183	-	-
<b>Sub-total</b>		<b>133,991,387</b>	<b>135,131,714</b>	<b>133,459,829</b>	<b>134,774,769</b>
<b>Total</b>		<b>136,063,645</b>	<b>137,037,351</b>	<b>135,523,343</b>	<b>136,673,595</b>

(i) The Group places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of the Relevant Periods, the statutory deposit reserve ratios applicable to the Bank and its domestic subsidiaries were as follows:

	31 December 2017	31 December 2016
Reserve ratio for RM Bdeposits	8.0%-14.5%	8.0% - 15.0%
Reserve ratio for foreign currency deposits	5.0%	5.0%

(ii) The surplus deposit reserves are maintained with the PBOC for clearing purposes.

(iii) The foreign exchange risk reserves placed the contracted value of foreign exchange forward sales in accordance with the related notice issued by the PBOC.

(iv) Deposits with overseas central banks are funds maintained with the overseas central banks by subsidiaries overseas for clearing purposes.

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

## 2. Deposits with banks and other financial institutions

Analysed by type and location of counterparty

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deposits in mainland China				
- Banks	30,543,986	11,061,695	29,739,203	10,535,605
- Other financial institutions	5,925,670	1,967,804	5,922,030	1,966,927
Deposits outside mainland China				
- Banks	2,318,480	4,901,725	2,083,641	4,777,790
<b>Total</b>	<b>38,788,136</b>	<b>17,931,224</b>	<b>37,744,874</b>	<b>17,280,322</b>

## 3. Placements with banks and other financial institutions

Analysed by type and location of counterparty

	Note	The Group		The Bank	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
Placements in mainland China					
- Banks		4,784,625	7,055,579	3,124,320	7,521,928
- Other financial institutions		86,812,026	81,192,236	86,826,994	81,192,236
Placements outside mainland China					
- Banks		4,225,395	9,074,400	1,822,520	4,139,499
- Other financial institutions		1,383,162	434,363	1,383,162	434,363
<b>Total</b>		<b>97,205,208</b>	<b>97,756,578</b>	<b>93,156,996</b>	<b>93,288,026</b>
Less: Provision for impairment losses	V. 17	(26,799)	(17,162)	(26,799)	(17,162)
<b>Carrying amount</b>		<b>97,178,409</b>	<b>97,739,416</b>	<b>93,130,197</b>	<b>93,270,864</b>

At 31 December 2017, the Group's placements with its own non-principal-guaranteed wealth management products amounted to RMB21,735 million (RMB30,305 million as at 31 December 2016). In 2017, the Group's maximum exposure of placements with its own non-principal-guaranteed wealth management products amounted to RMB36,809 million (2016: RMB37,534 million). These transactions are conducted based on normal commercial terms and conditions.

## 4. Financial assets at fair value through profit or loss

	Note	The Group		The Bank	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
Debt instruments held for trading					
- Government		-	469,277	-	469,277
- Policy banks		139,898	647,885	139,898	647,885
- Banks and other financial institutions		1,949,966	3,314,056	1,949,966	3,314,056
- Other entities	(i)	8,993,473	2,042,704	8,950,793	2,042,704
<b>Sub-total</b>	(ii)	<b>11,083,337</b>	<b>6,473,922</b>	<b>11,040,657</b>	<b>6,473,922</b>
Equity instruments held for trading					
- Stocks	(iii)	245,402	259,688	-	-
- Fund	(iv)	215,362	411,728	-	-
- Other		346	-	-	-
<b>Sub-total</b>		<b>461,110</b>	<b>671,416</b>	<b>-</b>	<b>-</b>
Debt instruments designated at fair value through profit or loss					
- Banks and other financial institutions	(ii)	9,790	-	9,790	-
<b>Total</b>		<b>11,554,237</b>	<b>7,145,338</b>	<b>11,050,447</b>	<b>6,473,922</b>

(i) Debt instruments held for trading issued by other entities mainly represented bonds issued by various domestic enterprises.

(ii) The above debt instruments held for trading and debt investment instruments designated at fair value through profit or loss represented bonds traded in China domestic interbank bond market. At the balance sheet date, part of the above financial assets at fair value through profit or loss were pledged (see Note X for detail). Other investments were not subject to any material restriction on realisation.

(iii) The above stocks held for trading represented listed stocks issued in mainland China.

(iv) The above fund held for trading represented unlisted fund issued in mainland China.

## 5. Derivative financial assets and liabilities

31 December 2017						
	The Group			The Bank		
	Notional amount	Fair Value		Notional amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Interest rate derivatives	1,616,654,847	27,041	(13,497)	1,615,720,265	17,226	(13,497)
Currency derivatives	363,224,187	806,638	(1,338,047)	362,187,822	800,178	(1,321,973)
Commodity derivatives	1,911,793	5,409	(7,798)	1,911,793	5,409	(7,798)
<b>Total</b>	<b>1,981,790,827</b>	<b>839,088</b>	<b>(1,359,342)</b>	<b>1,979,819,880</b>	<b>822,813</b>	<b>(1,343,268)</b>

31 December 2016						
	The Group			The Bank		
	Notional amount	Fair Value		Notional amount	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Interest rate derivatives	933,945,749	72,654	(89,369)	933,945,749	72,654	(89,369)
Currency derivatives	255,886,722	1,180,585	(895,543)	254,545,240	1,178,020	(848,145)
Commodity derivatives	29,875,503	108,654	(535,314)	29,875,503	108,654	(535,314)
Other derivatives	10,000	-	(9)	10,000	-	(9)
<b>Total</b>	<b>1,219,717,974</b>	<b>1,361,893</b>	<b>(1,520,235)</b>	<b>1,218,376,492</b>	<b>1,359,328</b>	<b>(1,472,837)</b>

The notional value indicates the contractual value of the derivative transactions outstanding at the balance sheet date. It does not represent the amounts at risk.

## 6. Financial assets held under resale agreements

### (1) Analysed by type of collateral

Note	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Securities				
- Government bonds	5,055,854	7,200,000	5,055,854	7,200,000
- Bonds issued by banks and other financial institutions	7,106,952	4,953,257	7,106,952	4,953,257
<b>Sub-total</b>	<b>12,162,806</b>	<b>12,153,257</b>	<b>12,162,806</b>	<b>12,153,257</b>
Bank certificate of deposit	13,781,499	6,703,910	11,533,155	1,537,400
Receivables	-	400,000	-	-
<b>Total</b>	<b>25,944,305</b>	<b>19,257,167</b>	<b>23,695,961</b>	<b>13,690,657</b>
<b>Less: Provision for impairment losses</b>	<b>(135,454)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Carrying amount</b>	<b>25,808,851</b>	<b>19,257,167</b>	<b>23,695,961</b>	<b>13,690,657</b>



# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

## (2) Analysed by type and location of counterparty

	Note	The Group		The Bank	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
In mainland China					
- Banks		10,314,140	8,398,000	10,314,140	8,398,000
- Other financial institutions		15,630,165	10,859,167	13,381,821	5,292,657
<b>Total</b>		<b>25,944,305</b>	<b>19,257,167</b>	<b>23,695,961</b>	<b>13,690,657</b>
Less: Provision for impairment losses	V.17	(135,454)	-	-	-
<b>Carrying Amount</b>		<b>25,808,851</b>	<b>19,257,167</b>	<b>23,695,961</b>	<b>13,690,657</b>

## 7. Interests receivable

Analysed by type of financial assets which generate interest receivable

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Debt instruments	5,076,964	5,187,946	5,050,189	5,186,949
Loans and advances to customers	1,893,701	1,634,243	1,816,757	1,556,856
Deposits with central bank, banks and other financial institutions	389,668	153,304	372,237	151,922
Placements with banks and other financial institutions	292,743	342,768	292,631	331,102
Financial assets held under resale agreements	27,350	36,319	15,768	4,168
<b>Total</b>	<b>7,680,426</b>	<b>7,354,580</b>	<b>7,547,582</b>	<b>7,230,997</b>

## 8. Loans and advances to customers

### (1) Analysed by nature

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
<b>Corporate loans and advances</b>	<b>446,591,730</b>	<b>359,625,050</b>	<b>428,509,476</b>	<b>342,931,706</b>
<b>Personal loans and advances</b>				
- Personal consumption loans	69,253,364	27,666,884	68,837,611	27,229,729
- Property mortgages	64,532,841	54,732,624	64,516,637	54,723,039
- Credit cards	24,842,719	17,192,774	24,842,719	17,192,774
- Personal business loans	15,422,125	19,506,011	14,893,621	18,953,871
<b>Sub-total</b>	<b>174,051,049</b>	<b>119,098,293</b>	<b>173,090,588</b>	<b>118,099,413</b>
<b>Discounted bills</b>	<b>43,378,838</b>	<b>75,275,957</b>	<b>43,353,938</b>	<b>75,237,980</b>
<b>Gross balance</b>	<b>664,021,617</b>	<b>553,999,300</b>	<b>644,954,002</b>	<b>536,269,099</b>
Less: Provision for impairment losses				
- Individually assessed	(4,289,640)	(4,045,852)	(4,028,006)	(3,973,395)
- Collectively assessed	(16,540,653)	(12,556,923)	(16,318,601)	(12,448,890)
<b>Total provision for impairment losses</b>	<b>(20,830,293)</b>	<b>(16,602,775)</b>	<b>(20,346,607)</b>	<b>(16,422,285)</b>
<b>Carrying amount</b>	<b>643,191,324</b>	<b>537,396,525</b>	<b>624,607,395</b>	<b>519,846,814</b>

As at the balance sheet date, part of the above loans and advances to customers were pledged assets (Note X.1).

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

## (2) Analysed by type of collateral

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Unsecured loans	164,919,131	119,154,203	159,231,836	113,556,595
Guaranteed loans	147,244,504	109,905,818	137,498,425	104,024,853
Loans secured by tangible assets	213,133,931	168,110,061	212,027,033	166,824,199
Loans secured by monetary assets	138,724,051	156,829,218	136,196,708	151,863,452
<b>Gross balance</b>	<b>664,021,617</b>	<b>553,999,300</b>	<b>644,954,002</b>	<b>536,269,099</b>
Less: Provision for impairment losses				
- Individually assessed	(4,289,640)	(4,045,852)	(4,028,006)	(3,973,395)
- Collectively assessed	(16,540,653)	(12,556,923)	(16,318,601)	(12,448,890)
<b>Total provision for impairment losses</b>	<b>(20,830,293)</b>	<b>(16,602,775)</b>	<b>(20,346,607)</b>	<b>(16,422,285)</b>
<b>Carrying amount</b>	<b>643,191,324</b>	<b>537,396,525</b>	<b>624,607,395</b>	<b>519,846,814</b>

## (3) Analysed by industrial sector

	31 December 2017			
	The Group		The Bank	
	Amount	%	Amount	%
Leasing and commercial services	100,474,715	15.13	100,116,065	15.52
Real estate	91,483,798	13.78	87,479,769	13.56
Manufacturing	58,373,887	8.79	57,371,061	8.90
Wholesale and retail	54,333,821	8.18	52,801,929	8.19
Public utilities	45,124,402	6.80	44,186,086	6.85
Financial services	20,247,009	3.05	12,880,341	2.00
Construction	16,877,230	2.54	16,519,616	2.56
Transportation, storage and postal services	13,981,002	2.11	13,351,306	2.07
Communication, software and IT services	10,653,383	1.60	10,497,878	1.63
Culture, sports and entertainment	8,704,215	1.31	8,484,277	1.32
Agriculture and farming	6,249,871	0.94	5,954,733	0.92
Hospitality and catering	5,207,361	0.78	5,160,511	0.80
Education and research	4,750,153	0.72	4,109,824	0.64
Others	10,130,883	1.53	9,596,080	1.48
<b>Sub-total of corporate loans and advances</b>	<b>446,591,730</b>	<b>67.26</b>	<b>428,509,476</b>	<b>66.44</b>
Personal loans and advances	174,051,049	26.21	173,090,588	26.84
Discounted bills	43,378,838	6.53	43,353,938	6.72
<b>Gross balance</b>	<b>664,021,617</b>	<b>100.00</b>	<b>644,954,002</b>	<b>100.00</b>
Less: Provision for impairment losses				
- Individually assessed	(4,289,640)		(4,028,006)	
- Collectively assessed	(16,540,653)		(16,318,601)	
<b>Total provision for impairment losses</b>	<b>(20,830,293)</b>		<b>(20,346,607)</b>	
<b>Carrying amount</b>	<b>643,191,324</b>		<b>624,607,395</b>	

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

	31 December 2016			
	The Group		The Bank	
	Amount	%	Amount	%
Leasing and commercial services	69,027,895	12.46	68,686,895	12.81
Real estate	53,581,874	9.67	51,495,141	9.60
Manufacturing	57,183,789	10.32	55,308,835	10.31
Wholesale and retail	53,521,651	9.66	51,595,909	9.62
Public utilities	35,531,610	6.41	34,758,347	6.48
Financial services	28,256,954	5.10	22,229,925	4.15
Construction	18,631,284	3.36	17,102,311	3.19
Transportation, storage and postal services	12,299,716	2.22	11,672,577	2.18
Communication, software and IT services	3,350,228	0.62	3,247,328	0.61
Culture, sports and entertainment	6,108,662	1.10	5,718,306	1.07
Agriculture and farming	4,754,100	0.86	4,327,733	0.81
Hospitality and catering	6,707,540	1.21	6,670,240	1.24
Education and research	4,291,234	0.77	4,170,532	0.78
Others	6,378,513	1.15	5,947,627	1.10
<b>Sub-total of corporate loans and advances</b>	<b>359,625,050</b>	<b>64.91</b>	<b>342,931,706</b>	<b>63.95</b>
Personal loans and advances	119,098,293	21.50	118,099,413	22.02
Discounted bills	75,275,957	13.59	75,237,980	14.03
<b>Gross balance</b>	<b>553,999,300</b>	<b>100.00</b>	<b>536,269,099</b>	<b>100.00</b>
Less: Provision for impairment losses				
- Individually assessed	(4,045,852)		(3,973,395)	
- Collectively assessed	(12,556,923)		(12,448,890)	
<b>Total provision for impairment losses</b>	<b>(16,602,775)</b>		<b>(16,422,285)</b>	
<b>Carrying amount</b>	<b>537,396,525</b>		<b>519,846,814</b>	

## (4) Analysed by geographical sector

	31 December 2017		31 December 2016	
	The Group	The Bank	The Group	The Bank
Shanghai	283,110,502	281,563,037	226,841,887	225,319,943
Yangtze River Delta (excluding Shanghai)	155,183,207	154,571,005	149,091,273	148,315,065
Pearl River Delta (including Hong Kong)	118,964,819	102,370,944	98,236,848	83,180,980
Bohai Rim	82,370,257	82,370,257	59,799,037	59,799,037
Central and Western	24,392,832	24,078,759	20,030,255	19,654,074
<b>Gross balance</b>	<b>664,021,617</b>	<b>644,954,002</b>	<b>553,999,300</b>	<b>536,269,099</b>
Less: Provision for impairment losses				
- Individually assessed	(4,289,640)	(4,028,006)	(4,045,852)	(3,973,395)
- Collectively assessed	(16,540,653)	(16,318,601)	(12,556,923)	(12,448,890)
<b>Total provision for impairment losses</b>	<b>(20,830,293)</b>	<b>(20,346,607)</b>	<b>(16,602,775)</b>	<b>(16,422,285)</b>
<b>Carrying amount</b>	<b>643,191,324</b>	<b>624,607,395</b>	<b>537,396,525</b>	<b>519,846,814</b>



# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

## (5) Overdue loans and advances analysed by type of collateral and overdue period

The Group					
As at 31 December 2017					
	Overdue within three months (inclusive)	Overdue between three months and one year (inclusive)	Overdue between one year and three years (inclusive)	Overdue more than three years	Total
Unsecured loans	592,055	721,756	79,446	-	1,393,257
Guaranteed loans	337,259	1,009,356	1,108,330	32,260	2,487,205
Loans secured by tangible assets	697,948	745,087	1,201,283	141,096	2,785,414
Loans secured by monetary assets	13,145	176,887	64,142	58,480	312,654
<b>Total</b>	<b>1,640,407</b>	<b>2,653,086</b>	<b>2,453,201</b>	<b>231,836</b>	<b>6,978,530</b>

The Bank					
As at 31 December 2017					
	Overdue within three months (inclusive)	Overdue between three months and one year (inclusive)	Overdue between one year and three years (inclusive)	Overdue more than three years	Total
Unsecured loans	591,945	721,726	79,164	-	1,392,835
Guaranteed loans	318,921	766,899	1,094,842	32,260	2,212,922
Loans secured by tangible assets	693,000	726,516	1,132,238	141,096	2,692,850
Loans secured by monetary assets	13,145	176,887	64,142	58,480	312,654
<b>Total</b>	<b>1,617,011</b>	<b>2,392,028</b>	<b>2,370,386</b>	<b>231,836</b>	<b>6,611,261</b>

The Group					
As at 31 December 2016					
	Overdue within three months (inclusive)	Overdue between three months and one year (inclusive)	Overdue between one year and three years (inclusive)	Overdue more than three years	Total
Unsecured loans	450,521	392,516	6,812	-	849,849
Guaranteed loans	456,115	1,400,623	1,005,031	1,095	2,862,864
Loans secured by tangible assets	566,756	915,088	1,648,587	83,075	3,213,506
Loans secured by monetary assets	51,677	116,737	138,610	-	307,024
<b>Total</b>	<b>1,525,069</b>	<b>2,824,964</b>	<b>2,799,040</b>	<b>84,170</b>	<b>7,233,243</b>

The Bank					
As at 31 December 2016					
	Overdue within three months (inclusive)	Overdue between three months and one year (inclusive)	Overdue between one year and three years (inclusive)	Overdue more than three years	Total
Unsecured loans	450,521	392,027	6,812	-	849,360
Guaranteed loans	437,064	1,382,034	951,504	1,095	2,771,697
Loans secured by tangible assets	561,258	870,477	1,605,028	83,075	3,119,838
Loans secured by monetary assets	46,782	116,737	138,328	-	301,847
<b>Total</b>	<b>1,495,625</b>	<b>2,761,275</b>	<b>2,701,672</b>	<b>84,170</b>	<b>7,042,742</b>

Overdue loans represent loans and advances to customers, of which the whole or part of the principal or interest was overdue for one day or more.

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

## (6) Analysed by assessment method of provision for impairment losses

The Group					
31 December 2017					
Loans and advances for which provision is collectively assessed	Impaired loans and advances (i)		Total		Gross impaired loans and advances as a % of gross loans and advances
	for which provision is collectively assessed	for which provision is individually assessed			
Gross balance	656,378,112	1,024,619	6,618,886	664,021,617	1.15
Less: Provision for impairment losses	(15,633,213)	(907,440)	(4,289,640)	(20,830,293)	
<b>Carrying amount</b>	<b>640,744,899</b>	<b>117,179</b>	<b>2,329,246</b>	<b>643,191,324</b>	

The Bank					
As at 31 December 2017					
Loans and advances for which provision is collectively assessed	Impaired loans and advances (i)		Total		Gross impaired loans and advances as a % of gross loans and advances
	for which provision is collectively assessed	for which provision is individually assessed			
Gross balance	637,651,017	995,505	6,307,480	644,954,002	1.13
Less: Provision for impairment losses	(15,432,751)	(885,850)	(4,028,006)	(20,346,607)	
<b>Carrying amount</b>	<b>622,218,266</b>	<b>109,655</b>	<b>2,279,474</b>	<b>624,607,395</b>	

The Group					
As at 31 December 2016					
Loans and advances for which provision is collectively assessed	Impaired loans and advances (i)		Total		Gross impaired loans and advances as a % of gross loans and advances
	for which provision is collectively assessed	for which provision is individually assessed			
Gross balance	547,501,247	792,572	5,705,481	553,999,300	1.17
Less: Provision for impairment losses	(11,830,337)	(726,586)	(4,045,852)	(16,602,775)	
<b>Carrying amount</b>	<b>535,670,910</b>	<b>65,986</b>	<b>1,659,629</b>	<b>537,396,525</b>	

The Bank					
As at 31 December 2016					
Loans and advances for which provision is collectively assessed	Impaired loans and advances (i)		Total		Gross impaired loans and advances as a % of gross loans and advances
	for which provision is collectively assessed	for which provision is individually assessed			
Gross balance	529,878,772	775,480	5,614,847	536,269,099	1.19
Less: Provision for impairment losses	(11,732,820)	(716,070)	(3,973,395)	(16,422,285)	
<b>Carrying amount</b>	<b>518,145,952</b>	<b>59,410</b>	<b>1,641,452</b>	<b>519,846,814</b>	

(i) Impaired loans and advances to customers include loans and advances for which objective evidence of impairment exists. These loans and advances include loans and advances for which objective evidence of impairment has been identified:

- individually, or
- collectively; that is the portfolios of homogeneous loans and advances.

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

## (7) Movements of provision for impairment losses

The Group				
2017				
	Provision for impairment losses which is collectively assessed	Provision for impaired loans and advances		Total
		collective assesement	individual assesement	
As at 1 January	(11,830,337)	(726,586)	(4,045,852)	(16,602,775)
Charge for the year	(3,817,513)	(388,002)	(3,379,295)	(7,584,810)
Release during the year	-	-	1,501,839	1,501,839
Recoveries	-	(96,234)	(621,071)	(717,305)
Unwinding of discount	-	-	105,336	105,336
Write-offs	-	302,717	2,142,068	2,444,785
Others	14,637	665	7,335	22,637
<b>As at 31 December</b>	<b>(15,633,213)</b>	<b>(907,440)</b>	<b>(4,289,640)</b>	<b>(20,830,293)</b>

The Bank				
2017				
	Provision for impairment losses which is collectively assessed	Provision for impaired loans and advances		Total
		collective assesement	individual assesement	
As at 1 January	(11,732,820)	(716,070)	(3,973,395)	(16,422,285)
Charge for the year	(3,711,516)	(376,928)	(3,108,038)	(7,196,482)
Release during the year	-	-	1,490,972	1,490,972
Recoveries	-	(96,234)	(610,204)	(706,438)
Unwinding of discount	-	-	103,226	103,226
Write-offs	-	302,717	2,066,409	2,369,126
Others	11,585	665	3,024	15,274
<b>As at 31 December</b>	<b>(15,432,751)</b>	<b>(885,850)</b>	<b>(4,028,006)</b>	<b>(20,346,607)</b>

The Group				
2016				
	Provision for impairment losses which is collectively assessed	Provision for impaired loans and advances		Total
		collective assesement	individual assesement	
As at 1 January	(10,443,793)	(671,034)	(4,027,552)	(15,142,379)
Charge for the year	(1,365,513)	(306,046)	(3,943,211)	(5,614,770)
Release during the year	-	-	893,025	893,025
Recoveries	-	(84,264)	(360,308)	(444,572)
Unwinding of discount	-	-	138,639	138,639
Write-offs	-	335,989	3,260,379	3,596,368
Others	(21,031)	(1,231)	(6,824)	(29,086)
<b>As at 31 December</b>	<b>(11,830,337)</b>	<b>(726,586)</b>	<b>(4,045,852)</b>	<b>(16,602,775)</b>

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

	The Bank			
	2016			
	Provision for impairment losses which is collectively assessed	Provision for impaired loans and advances		Total
		collective assessment	individual assessment	
As at 1 January	(10,358,209)	(669,609)	(4,006,607)	(15,034,425)
Charge for the year	(1,354,462)	(296,955)	(3,852,914)	(5,504,331)
Release during the year	-	-	893,025	893,025
Recoveries	-	(84,264)	(360,308)	(444,572)
Unwinding of discount	-	-	136,927	136,927
Write-offs	-	335,989	3,223,306	3,559,295
Others	(20,149)	(1,231)	(6,824)	(28,204)
<b>As at 31 December</b>	<b>(11,732,820)</b>	<b>(716,070)</b>	<b>(3,973,395)</b>	<b>(16,422,285)</b>

## (8) Rescheduled loans and advances to customers

	The Group and The Bank	
	31 December 2017	31 December 2016
Rescheduled loans and advances to customers	1,004,523	884,737

## (9) Fair value of collaterals

As at the end of the Relevant Periods, the fair value of collaterals held against corporate loans and advances of the Group and the Bank that were impaired and that were overdue but not impaired were as the follows:

### *Fair value of collaterals held against impaired corporate loans and advances*

As at 31 December 2017, the gross balance of corporate loans and advances of the Group and the Bank that were impaired amounted to RMB6,619 million and RMB6,307 million respectively (31 December 2016: The Group and the Bank were RMB5,705 million and RMB5,615 million respectively). The covered portion of these loans and advances were RMB3,770 million and RMB3,703 million respectively (31 December 2016: The Group and the Bank were RMB3,381 million and RMB3,351 million respectively). Corresponding fair value of collaterals was as follows:

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Land and premises	2,539,462	3,491,052	2,444,163	3,472,204
Other assets	1,566,606	325,427	1,554,887	312,218
<b>Total</b>	<b>4,106,068</b>	<b>3,816,479</b>	<b>3,999,050</b>	<b>3,784,422</b>

### *Fair value of collaterals held against corporate loans and advances which were overdue but not impaired*

As at 31 December 2017, the gross amount of corporate loans and advances of the Group and the Bank, which were overdue but not impaired, were RMB204 million and RMB190 million respectively (31 December 2016: RMB370 million and RMB300 million respectively). The covered portion of these loans and advances were both RMB81 million respectively (31 December 2016: RMB199 million and RMB150 million). Corresponding fair value of collaterals was as follows:

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Land and premises	82,257	210,209	82,257	159,773
Other assets	4,655	19,306	4,655	5,957
<b>Total</b>	<b>86,912</b>	<b>229,515</b>	<b>86,912</b>	<b>165,730</b>

The fair value of collateral was estimated by the Group based on the latest available external valuations adjusted by considering the current realisation experience as well as the market situation. Collaterals were mainly land and premises.

## 9. Available-for-sale financial assets

### (1) Available-for-sale financial assets

	Note	The Group		The Bank	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
<b>Debt instruments measured by fair value (Analysed by issuer)</b>					
In mainland China					
- Government		1,700,534	16,027,659	1,681,084	16,027,659
- Policy banks		9,100,121	10,921,967	8,950,398	10,921,967
- Banks and other financial institutions		180,906,385	223,346,550	179,924,230	223,182,450
- Other institutions	(i)	9,307,726	25,835,677	9,075,791	19,007,966
Outside mainland China					
- Government		946,706	374,520	196,064	196,819
- Banks and other financial institutions		7,511,423	8,276,564	6,410,929	6,975,911
- Other institutions	(i)	1,097,867	3,759,795	610,043	3,464,158
<b>Sub-total</b>	(ii)/(iii)	<b>210,570,762</b>	<b>288,542,732</b>	<b>206,848,539</b>	<b>279,776,930</b>
<b>Equity instruments (Analysed by measurement)</b>					
In mainland China					
- Measured by fair value	(iii)/(iv)	199,074,036	133,302,191	198,521,988	139,735,003
- Measured by cost	(v)	94,327	64,327	64,327	64,327
Outside mainland China					
- Measured by fair value	(iii)	10,945,688	10,236,935	12,279,707	10,928,499
<b>Sub-total</b>		<b>210,114,051</b>	<b>143,603,453</b>	<b>210,866,022</b>	<b>150,727,829</b>
<b>Total</b>		<b>420,684,813</b>	<b>432,146,185</b>	<b>417,714,561</b>	<b>430,504,759</b>

### (2) Analysed by listed or unlisted

	Note	The Group		The Bank	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
<b>Debt instruments</b>					
- Listed		1,767,791	896,789		
- Unlisted		208,802,971	287,645,943	206,848,539	279,776,930
<b>Sub-total</b>	(ii)	<b>210,570,762</b>	<b>288,542,732</b>		
<b>Equity instruments</b>					
- Listed		68,607	66,235	68,607	66,235
- Unlisted	(v)	210,045,444	143,537,218	210,797,415	150,661,594
<b>Sub-total</b>		<b>210,114,051</b>	<b>143,603,453</b>	<b>210,866,022</b>	<b>150,727,829</b>
<b>Total</b>		<b>420,684,813</b>	<b>432,146,185</b>	<b>417,714,561</b>	<b>430,504,759</b>



# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

## (3) Fair value analyses of available-for-sale financial assets:

31 December 2017						
	Note	The Group			The Bank	
		Available-for-sale equity instruments	Available-for-sale debt instruments	Total	Available-for-sale equity instruments	Available-for-sale debt instruments
Cost of equity instruments / debt instruments		210,171,253	211,964,885	422,136,138	211,184,349	208,248,612
Fair Value		210,019,724	210,570,762	420,590,486	210,801,695	206,848,539
Fair value change included in OCI		(62,121)	(752,996)	(815,117)	(293,246)	(758,946)
Provision for impairment	(iii)	(89,408)	(641,127)	(730,535)	(89,408)	(641,127)

31 December 2016						
	Note	The Group			The Bank	
		Available-for-sale equity instruments	Available-for-sale debt instruments	Total	Available-for-sale equity instruments	Available-for-sale debt instruments
Cost of equity instruments / debt instruments		142,793,782	289,058,892	431,852,674	150,505,138	280,353,896
Fair Value		143,539,126	288,542,732	432,081,858	150,663,502	279,776,930
Fair value change included in OCI		751,104	62,842	813,946	164,124	2,036
Provision for impairment	(iii)	(5,760)	(579,002)	(584,762)	(5,760)	(579,002)

(i) Debt instruments issued by other institutions inside and outside mainland China mainly represent debt securities issued by all kinds of enterprises and companies.

(ii) At the balance sheet date, some of the debt instruments were pledged as collateral for debt securities lending transactions (see Note X for details). No other investments were subject to material restriction on realisation.

(iii) When impairment of an available-for-sale investment measured at fair value occurs, any impairment loss recognised is recorded in the carrying amount directly.

(iv) Equity instruments measured based on fair value inside China mainly represent money fund and bond fund investment, and beneficial right investment on bonus bill.

(v) Part of available-for-sale unlisted equity instruments which do not have any quoted market prices and whose fair values cannot be measured reliably are stated at cost less any accumulated impairment losses.

## 10. Held-to-maturity investments

Analysed by type of issuer and geographical location

	Note	The Group		The Bank	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
Issued in mainland China:					
- Government		231,227,582	209,338,909	231,227,582	209,338,909
- Banks and other financial institutions		25,111,492	22,966,767	25,111,492	22,966,767
- Other institutions	(i)	1,121,939	769,989	1,121,939	769,989
Issued outside mainland China					
- Commercial banks and other financial institutions		4,177,804	1,647,027	4,177,804	1,647,027
- Other institutions	(i)	2,627,647	1,819,127	2,433,289	1,819,127
<b>Total</b>		<b>264,266,464</b>	<b>236,541,819</b>	<b>264,072,106</b>	<b>236,541,819</b>
Less: Provision for impairment losses	V. 17	(3,596)	(1,637)	(3,596)	(1,637)
<b>Carrying amount</b>	(ii)	<b>264,262,868</b>	<b>236,540,182</b>	<b>264,068,510</b>	<b>236,540,182</b>

(i) Debt securities issued by other institutions inside and outside mainland China mainly represent debt securities issued by all kinds of enterprises companies.

(ii) As at the balance sheet date, part of the held-to-maturity investments was pledged as guaranty (See Note X). No other investments were subject to material restrictions on the realisation.

(iii) As at 31 December 2017, held-to-maturity investments of the Group include a listed bond investment, which amounted to RMB0.2 billion. The Bank does not have any other listed bond investment (as at 31 December 2016, the Group and the Bank: Nil).

## 11. Investment securities classified as receivables

Analysed by type of issuer and geographical location

	Note	The Group		The Bank	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
Issued in mainland China					
- Government	(i)	8,390,195	8,137,885	8,390,195	8,137,885
- Commercial Banks	(ii)/(iv)	902,293	15,014	-	15,014
- Other financial institutions	(iii)/(iv)	134,920,751	237,418,933	141,898,414	247,911,947
- Other institutions	(v)	100,000	100,000	100,000	100,000
<b>Sub-total</b>		<b>144,313,239</b>	<b>245,671,832</b>	<b>150,388,609</b>	<b>256,164,846</b>
Less: Provision for impairment losses	V. 17	(7,611,853)	(5,348,428)	(7,848,140)	(5,348,428)
<b>Carrying amount</b>	(vi)	<b>136,701,386</b>	<b>240,323,404</b>	<b>142,540,469</b>	<b>250,816,418</b>

(i) Mainly represent certificated bonds and local government bonds issued by Chinese government.

(ii) Mainly represent wealth management products issued by commercial banks.

(iii) Mainly represent the asset management plans established by asset management companies, the asset management plans established by securities companies and the certificates issued by securities companies.

Some banks and other financial institutions offer credit enhancement to some of the above investments. As at 31 December 2017, RMB1.8 billion of beneficial right transfer contracts have been signed to forward sell with banks and other financial institutions in mainland China (31 December 2016: RMB5.7 billion). The fair value of the above sale agreement is insignificant.

(iv) The Group invests in debt instruments directly or through structured entities to get a fixed or determinable income. The underlying assets of these structured entities include interbank deposits, bonds and credit assets. For the information of the interests in structure entities, see Note VI.

(v) Securities issued by other institutions in China are mainly debt instruments issued by all kinds of enterprises companies.

(vi) None of the above investment classified as receivables was listed. Part of the investment classified as receivables was pledged as guaranty (see Note X). No other investments were subject to material restrictions on the realization.

## 12. Long-term equity investments

	Note	The Group	
		31 December 2017	31 December 2016
Investments in associates	(i)	395,131	18,423

	Note	The Bank	
		31 December 2017	31 December 2016
Investments in associate	(ii)	375,115	-
Investments in subsidiaries	(iii)	3,870,724	3,870,724
<b>Total</b>		<b>4,245,839</b>	<b>3,870,724</b>

## Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

(i) Changes in the Group's long-term equity investments in associate are as follows:

Investee	2017				
	Balance at 1 January	Increase in capital	Investment gains/(losses) recognised under equity method	Balance at 31 December	Balance of provision for impairment losses at 31 December
Shanghai ShangKang Yinchuang Investment Management Co., Ltd. ("ShangKang Yinchuang")	18,423	-	593	19,016	-
Shanghai ShangCheng Consumer Finance Corporation Limited ("ShangCheng Finance")	-	380,000	(4,885)	375,115	-
Shenzhen Yushi Supply Chain Science & Technology Service Co., Ltd. ("Yushi Science & Technology")	-	1,000	-	1,000	-
<b>Total</b>	<b>18,423</b>	<b>381,000</b>	<b>(4,292)</b>	<b>395,131</b>	<b>-</b>

Investee	2016			
	Balance at 1 January	Investment loss recognised under equity method	Balance at 31 December	Balance of provision for impairment losses at 31 December
ShangKang Yinchuang	18,424	(1)	18,423	-

(ii) Changes in the Bank's long-term equity investments in associates are as follows:

Investee	2017				
	Balance at 1 January	Increase in capital	Investment loss recognised under equity method	Balance at 31 December	Balance of provision for impairment losses at 31 December
ShangCheng Finance	-	380,000	(4,885)	375,115	-

See Note VI.2 for details of the Group's and the Bank's associates.

(iii) Changes in the Bank's long-term equity investments in subsidiaries are as follows:

Investee	2017			
	Balance at 1 January	Additional investment	Balance at 31 December	Balance of provision for impairment losses at 31 December
Bank of Shanghai (Hong Kong) Limited ("Hongkong subsidiary")	3,279,424	-	3,279,424	-
BOSC Asset Management Co., Ltd. ("Asset Management")	270,000	-	270,000	-
Minhang Rural	102,000	-	102,000	-
Jiangning Rural	102,000	-	102,000	-
Chongzhou Rural	66,300	-	66,300	-
Qujiang Rural	51,000	-	51,000	-
<b>Total</b>	<b>3,870,724</b>	<b>-</b>	<b>3,870,724</b>	<b>-</b>

Investee	2016			
	Balance at 1 January	Additional investment	Balance at 31 December	Balance of provision for impairment losses at 31 December
Hong Kong Subsidiary	1,563,824	1,715,600	3,279,424	-
Asset Management	270,000	-	270,000	-
Minhang Rural	102,000	-	102,000	-
Jiangning Rural	102,000	-	102,000	-
Chongzhou Rural	66,300	-	66,300	-
Qujiang Rural	51,000	-	51,000	-
<b>Total</b>	<b>2,155,124</b>	<b>1,715,600</b>	<b>3,870,724</b>	<b>-</b>

See Note VI.1 for details of the Bank's subsidiaries.

### 13. Fixed assets

	The Group					
	Premises	Construction in progress	Electronic equipment	Furniture and fixtures	Motor vehicles	Total
<b>Cost:</b>						
As at 1 January 2017	5,508,812	56,362	58,636	2,369,877	104,670	8,098,357
Additions	195,220	43,598	2,153	126,210	7,617	374,798
Disposals	(33)	-	(5,377)	(261,686)	(6,372)	(273,468)
<b>As at 31 December 2017</b>	<b>5,703,999</b>	<b>99,960</b>	<b>55,412</b>	<b>2,234,401</b>	<b>105,915</b>	<b>8,199,687</b>
<b>Accumulated depreciation</b>						
As at 1 January 2017	(1,762,848)	-	(45,814)	(1,756,781)	(83,495)	(3,648,938)
Charge for the year	(193,946)	-	(5,122)	(208,043)	(7,109)	(414,220)
Disposals	31	-	4,151	247,776	6,051	258,009
<b>As at 31 December 2017</b>	<b>(1,956,763)</b>	<b>-</b>	<b>(46,785)</b>	<b>(1,717,048)</b>	<b>(84,553)</b>	<b>(3,805,149)</b>
<b>Carrying amount</b>						
As at 1 January 2017	3,745,964	56,362	12,822	613,096	21,175	4,449,419
<b>As at 31 December 2017</b>	<b>3,747,236</b>	<b>99,960</b>	<b>8,627</b>	<b>517,353</b>	<b>21,362</b>	<b>4,394,538</b>

	The Group					
	Premises	Construction in progress	Electronic equipment	Furniture and fixtures	Motor vehicles	Total
<b>Cost:</b>						
As at 1 January 2016	5,013,909	31,342	59,427	2,262,307	104,725	7,471,710
Additions	655,440	26,506	5,841	200,535	4,751	893,073
Transfers in / (out) of construction in progress	1,486	(1,486)	-	-	-	-
Disposals	(162,023)	-	(6,632)	(92,965)	(4,806)	(266,426)
<b>As at 31 December 2016</b>	<b>5,508,812</b>	<b>56,362</b>	<b>58,636</b>	<b>2,369,877</b>	<b>104,670</b>	<b>8,098,357</b>
<b>Accumulated depreciation</b>						
As at 1 January 2016	(1,622,353)	-	(45,144)	(1,552,608)	(78,731)	(3,298,836)
Charge for the year	(175,421)	-	(6,954)	(285,965)	(9,221)	(477,561)
Disposals	34,926	-	6,284	81,792	4,457	127,459
<b>As at 31 December 2016</b>	<b>(1,762,848)</b>	<b>-</b>	<b>(45,814)</b>	<b>(1,756,781)</b>	<b>(83,495)</b>	<b>(3,648,938)</b>
<b>Carrying amount</b>						
As at 1 January 2016	3,391,556	31,342	14,283	709,699	25,994	4,172,874
<b>As at 31 December 2016</b>	<b>3,745,964</b>	<b>56,362</b>	<b>12,822</b>	<b>613,096</b>	<b>21,175</b>	<b>4,449,419</b>

As at 31 December 2017, the carrying amount of the Group's premises for operating leases was RMB356 million (31 December 2016: RMB378 million).

As at 31 December 2017, there was no significant amounts of temporarily idle fixed assets (31 December 2016: Nil).

As at 31 December 2017, title deeds were not yet finalised for the Group's premises with a carrying amount of RMB198 million (31 December 2016: RMB1,492 million). Management of the Group are of the opinion that the Group is entitled to legally and effectively occupy or use the above-mentioned premises.

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

## 14. Intangible assets

	The Group			
	Land use right	Computer software	Others	Total
<b>Cost</b>				
As at 1 January 2017	278,832	883,165	8,318	1,170,315
Additions	-	72,465	-	72,465
Disposals	-	(8,583)	(2,750)	(11,333)
<b>As at 31 December 2017</b>	<b>278,832</b>	<b>947,047</b>	<b>5,568</b>	<b>1,231,447</b>
<b>Accumulated amortisation</b>				
As at 1 January 2017	(79,465)	(507,465)	(3,770)	(590,700)
Amortised for the year	(5,903)	(133,471)	(742)	(140,116)
Disposals	-	7,310	2,729	10,039
<b>As at 31 December 2017</b>	<b>(85,368)</b>	<b>(633,626)</b>	<b>(1,783)</b>	<b>(720,777)</b>
<b>Carrying amount</b>				
As at 1 January 2017	199,367	375,700	4,548	579,615
As at 31 December 2017	193,464	313,421	3,785	510,670

	The Group			
	Land use right	Computer software	Others	Total
<b>Cost</b>				
As at 1 January 2016	278,832	760,853	8,318	1,048,003
Additions	-	122,312	-	122,312
<b>As at 31 December 2016</b>	<b>278,832</b>	<b>883,165</b>	<b>8,318</b>	<b>1,170,315</b>
<b>Accumulated amortisation</b>				
As at 1 January 2016	(73,560)	(391,985)	(2,547)	(468,092)
Amortised for the year	(5,905)	(115,480)	(1,223)	(122,608)
<b>As at 31 December 2016</b>	<b>(79,465)</b>	<b>(507,465)</b>	<b>(3,770)</b>	<b>(590,700)</b>
<b>Carrying amount</b>				
As at 1 January 2016	205,272	368,868	5,771	579,911
As at 31 December 2016	199,367	375,700	4,548	579,615

## 15. Deferred tax assets and liabilities

### (1) Analysed by nature

	Note	The Group				
		31 December 2017				
		Deductible temporary differences	Deferred tax assets	Taxable temporary differences	Deferred tax liabilities	Net balance
<b>Deferred tax assets</b>						
Provision for impairment losses		23,525,799	5,877,529	-	-	5,877,529
Employee benefits payable		2,832,482	708,101	-	-	708,101
Fair value change		5,150,029	1,286,441	(506,912)	(126,728)	1,159,713
Others	(i)	149,110	38,096	-	-	38,096
<b>Total</b>		<b>31,657,420</b>	<b>7,910,167</b>	<b>(506,912)</b>	<b>(126,728)</b>	<b>7,783,439</b>
<b>Deferred tax liabilities</b>						
Provision for impairment losses		88,800	22,200	-	-	22,200
Fair value change		-	-	(310,308)	(77,577)	(77,577)
Others	(i)	-	-	(2,206)	(364)	(364)
<b>Total</b>		<b>88,800</b>	<b>22,200</b>	<b>(312,514)</b>	<b>(77,941)</b>	<b>(55,741)</b>

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

		The Group				
		31 December 2016				
	Note	Deductible temporary differences	Deferred tax assets	Taxable temporary differences	Deferred tax liabilities	Net balance
Deferred tax assets						
Provision for impairment losses		19,858,949	4,960,903	-	-	4,960,903
Employee benefits payable		2,320,044	578,929	-	-	578,929
Fair value change		111,788	32,795	(2,318,328)	(579,582)	(546,787)
Others	(i)	156,800	39,844	-	-	39,844
Total		22,447,581	5,612,471	(2,318,328)	(579,582)	5,032,889
Deferred tax liabilities						
Fair value change		-	-	(160,396)	(40,099)	(40,099)
Others	(i)	-	-	(1,121)	(185)	(185)
Total		-	-	(161,517)	(40,284)	(40,284)

(i) Others mainly represent the temporary differences arising from long-term deferred expenses, as well as the difference in amortization period between accounting policy and tax requirement for intangible assets.

## (2) Movements of deferred tax

	Note	The Group			
		Year ended 31 December 2017			
		1 January 2017	Recognised in profit or loss	Recognised in equity	31 December 2017
<b>Deferred tax assets</b>					
Deferred tax					
- Provision for impairment losses	(i)	4,960,903	916,626	-	5,877,529
- Employee benefits payable		578,929	129,172	-	708,101
- Fair value change	(ii)	(546,787)	1,405,947	300,553	1,159,713
- Others		39,844	(1,748)	-	38,096
<b>Net balance</b>		<b>5,032,889</b>	<b>2,449,997</b>	<b>300,553</b>	<b>7,783,439</b>
<b>Deferred tax liabilities</b>					
Deferred tax					
- Provision for impairment losses		-	22,200	-	22,200
- Fair value change	(ii)	(40,099)	-	(37,478)	(77,577)
- Others		(185)	(179)	-	(364)
<b>Net balance</b>		<b>(40,284)</b>	<b>22,021</b>	<b>(37,478)</b>	<b>(55,741)</b>

	Note	The Group			
		Year ended 31 December 2016			
		1 January 2016	Recognised in profit or loss	Recognised in equity	31 December 2016
<b>Deferred tax assets</b>					
Deferred tax					
- Provision for impairment losses	(i)	3,506,836	1,454,067	-	4,960,903
- Employee benefits payable		489,199	89,730	-	578,929
- Fair value change	(ii)	(521,867)	(534,486)	509,566	(546,787)
- Others		30,152	9,692	-	39,844
<b>Net balance</b>		<b>3,504,320</b>	<b>1,019,003</b>	<b>509,566</b>	<b>5,032,889</b>
<b>Deferred tax liabilities</b>					
Deferred tax					
- Fair value change	(ii)	(51,360)	-	11,261	(40,099)
- Others		-	(185)	-	(185)
<b>Net balance</b>		<b>(51,360)</b>	<b>(185)</b>	<b>11,261</b>	<b>(40,284)</b>

## Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

(i) The Group made provision for impairment losses on financial assets. The provision for impairment losses was determined based on the expected recoverable amount of the relevant assets as at the balance sheet date. The amounts deductible for income tax purposes are calculated based on the underlying PRC tax rules at the balance sheet.

(ii) Net gains or losses on fair value changes of financial instruments are subject to tax when realised.

### 16. Other assets

	Note	The Group	
		31 December 2017	31 December 2016
Precious metals		7,271,288	6,449,094
Prepayments	(i)	1,571,332	1,629,047
Receivables		1,444,266	1,329,295
Pledged deposits		594,392	830,503
Suspense account for clearing		360,651	192,627
Long-term deferred expenses	(ii)	203,416	242,102
Repossessed assets	(iii)	-	32,864
Others		524,955	382,461
<b>Total</b>		<b>11,970,300</b>	<b>11,087,993</b>
Less: Provision for impairment losses	V. 17	(40,323)	(30,502)
<b>Net balance</b>		<b>11,929,977</b>	<b>11,057,491</b>

(i) Prepayments mainly represent prepayments for office buildings, decorations for branches and other projects.

(ii) Long-term deferred expenses

	The Group			
	2017			
	As at 1 January	Additions	Amortisation charged for the year	As at 31 December
Leasehold improvements	212,907	62,216	(108,571)	166,552
Others	29,195	12,583	(4,914)	36,864
<b>Total</b>	<b>242,102</b>	<b>74,799</b>	<b>(113,485)</b>	<b>203,416</b>

	The Group			
	2016			
	As at 1 January	Additions	Amortisation charged for the year	As at 31 December
Leasehold improvements	297,106	62,266	(146,465)	212,907
Others	34,171	-	(4,976)	29,195
<b>Total</b>	<b>331,277</b>	<b>62,266</b>	<b>(151,441)</b>	<b>242,102</b>

(iii) Repossessed assets represent shares in third parties. As at 31 December 2017, the group did not accrue provision for impairment of repossessed assets (31 December 2016: RMB16.81million).



## 17. Provision for impairment losses

Impaired items	Note	The Group				
		As at 1 January 2017	Charge for the year	Recoveries for the year	Write-off and others	As at 31 December 2017
Placements with banks and other financial institutions	V. 3	17,162	9,637	-	-	26,799
Financial assets held under resale agreements	V. 6	-	135,454	-	-	135,454
Loans and advances to customers	V. 8	16,602,775	7,584,810	(1,501,839)	(1,855,453)	20,830,293
Available-for-sale financial assets	V. 9	584,762	157,807	(12,034)	-	730,535
Held-to-maturity investments	V. 10	1,637	1,959	-	-	3,596
Investment securities classified as receivables	V. 11	5,348,428	2,457,557	(194,132)	-	7,611,853
Other assets	V. 16	30,502	29,467	(16,807)	(2,839)	40,323
<b>Total</b>		<b>22,585,266</b>	<b>10,376,691</b>	<b>(1,724,812)</b>	<b>(1,858,292)</b>	<b>29,378,853</b>

Impaired items	Note	The Bank				
		As at 1 January 2017	Charge for the year	Recoveries for the year	Write-off and others	As at 31 December 2017
Placements with banks and other financial institutions	V. 3	17,162	9,637	-	-	26,799
Loans and advances to customers	V. 8	16,422,285	7,196,482	(1,490,972)	(1,781,188)	20,346,607
Available-for-sale financial assets	V. 9	584,762	157,807	(12,034)	-	730,535
Held-to-maturity investments	V. 10	1,637	1,959	-	-	3,596
Investment securities classified as receivables	V. 11	5,348,428	2,693,844	(194,132)	-	7,848,140
Other assets	V. 16	16,807	11,304	(16,807)	-	11,304
<b>Total</b>		<b>22,391,081</b>	<b>10,071,033</b>	<b>(1,713,945)</b>	<b>(1,781,188)</b>	<b>28,966,981</b>

Impaired items	Note	The Group				
		As at 1 January 2016	Charge for the year	Recoveries for the year	Write-off and others	As at 31 December 2016
Placements with banks and other financial institutions	V. 3	7,470	9,692	-	-	17,162
Loans and advances to customers	V. 8	15,142,379	5,614,770	(893,025)	(3,261,349)	16,602,775
Available-for-sale financial assets	V. 9	15,985	578,777	(10,000)	-	584,762
Held-to-maturity investments	V. 10	-	1,637	-	-	1,637
Investment securities classified as receivables	V. 11	1,101,022	4,247,406	-	-	5,348,428
Other assets	V. 16	3,415	27,087	-	-	30,502
<b>Total</b>		<b>16,270,271</b>	<b>10,479,369</b>	<b>(903,025)</b>	<b>(3,261,349)</b>	<b>22,585,266</b>



## Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

Impaired items	Note	The Bank				
		As at 1 January 2016	Charge for the year	Recoveries for the year	Write-off and others	As at 31 December 2016
Placements with banks and other financial institutions	V. 3	7,470	9,692	-	-	17,162
Loans and advances to customers	V. 8	15,034,425	5,504,331	(893,025)	(3,223,446)	16,422,285
Available-for-sale financial assets	V. 9	5,985	578,777	-	-	584,762
Held-to-maturity investments	V. 10	-	1,637	-	-	1,637
Investment securities classified as receivables	V. 11	1,101,022	4,247,406	-	-	5,348,428
Other assets	V. 16	3,415	13,392	-	-	16,807
<b>Total</b>		<b>16,152,317</b>	<b>10,355,235</b>	<b>(893,025)</b>	<b>(3,223,446)</b>	<b>22,391,081</b>

### 18. Deposits from banks and other financial institutions

Analysed by type and geographical location of counterparty

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
<b>Deposits in mainland China</b>				
- Banks	85,890,216	75,756,343	86,244,439	75,988,644
- Other financial institutions	211,712,877	206,180,511	211,773,718	206,258,644
<b>Deposits outside mainland China</b>				
- Banks	31,051,168	78,881	31,051,169	78,882
<b>Total</b>	<b>328,654,261</b>	<b>282,015,735</b>	<b>329,069,326</b>	<b>282,326,170</b>

### 19. Placements from banks and other financial institutions

Analysed by type and geographical location of counterparty

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
<b>Placements in mainland China</b>				
- Banks	16,520,472	21,260,124	16,520,472	21,260,124
<b>Placements outside mainland China</b>				
- Banks	35,280,624	28,110,755	33,417,955	26,896,451
<b>Total</b>	<b>51,801,096</b>	<b>49,370,879</b>	<b>49,938,427</b>	<b>48,156,575</b>

### 20. Financial liabilities at fair value through profit or loss

The Group and The Bank		
	31 December 2017	31 December 2016
Short position in bond	-	307,656

All the financial liabilities at fair value through profit or loss are trading financial liabilities.

## 21. Financial assets sold under repurchase agreements

### (1) Analysed by type of collateral

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Securities				
- Government bonds	35,139,100	42,190,000	35,139,100	42,190,000
- Policy bank bonds	10,660,900	3,790,000	10,660,900	3,790,000
- Corporate bonds	-	500,000	-	500,000
<b>Sub-total</b>	<b>45,800,000</b>	<b>46,480,000</b>	<b>45,800,000</b>	<b>46,480,000</b>
Commercial bills	32,559,419	44,657,791	32,559,419	44,657,791
Asset management plans	213,750	213,750	-	-
<b>Total</b>	<b>78,573,169</b>	<b>91,351,541</b>	<b>78,359,419</b>	<b>91,137,791</b>

### (2) Analysed by type and geographical location of counterparty

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
In mainland China				
- Banks	51,141,108	57,647,906	51,141,108	57,647,906
- Other financial institutions	27,432,061	33,703,635	27,218,311	33,489,885
<b>Total</b>	<b>78,573,169</b>	<b>91,351,541</b>	<b>78,359,419</b>	<b>91,137,791</b>

## 22. Deposits from customers

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
<b>Demand deposits</b>				
- Corporate customers	323,092,112	298,863,842	321,541,586	297,725,165
- Personal customers	58,390,833	55,967,453	58,321,135	55,931,706
<b>Sub-total</b>	<b>381,482,945</b>	<b>354,831,295</b>	<b>379,862,721</b>	<b>353,656,871</b>
<b>Time deposits (include call deposits)</b>				
- Corporate customers	328,458,562	286,845,136	316,339,543	276,682,987
- Personal customers	146,876,815	148,802,561	146,633,040	148,454,314
<b>Sub-total</b>	<b>475,335,377</b>	<b>435,647,697</b>	<b>462,972,583</b>	<b>425,137,301</b>
<b>Pledged deposits</b>	<b>66,767,002</b>	<b>58,594,372</b>	<b>66,311,020</b>	<b>58,170,598</b>
<b>Total</b>	<b>923,585,324</b>	<b>849,073,364</b>	<b>909,146,324</b>	<b>836,964,770</b>

## 23. Employee benefits payable

	Note	The Group	
		31 December 2017	31 December 2016
Short-term employee benefits	(i)	1,915,377	1,792,396
Post employment benefits – defined contribution plans	(ii)	-	-
Termination benefits		3,305	7,117
Other long-term employee benefits	(iii)	1,060,264	660,082
<b>Total</b>	(iv)	<b>2,978,946</b>	<b>2,459,595</b>

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

## (i) Short-term employee benefits

The Group				
	As at 1 January 2017	Increased during the year	Decreased during the year	As at 31 December 2017
Salaries, bonuses, allowances	1,778,945	3,175,741	(3,049,184)	1,905,502
Staff welfare	-	172,321	(172,321)	-
Social insurance				
- Medical insurance	-	174,272	(174,272)	-
- Work-related injury insurance	-	3,300	(3,300)	-
- Maternity insurance	-	16,304	(16,304)	-
Housing fund	-	222,448	(222,448)	-
Labour union fee, staff and workers' education fee	13,274	71,853	(75,252)	9,875
Others	177	183,077	(183,254)	-
<b>Total</b>	<b>1,792,396</b>	<b>4,019,316</b>	<b>(3,896,335)</b>	<b>1,915,377</b>

The Group				
	As at 1 January 2016	Increased during the year	Decreased during the year	As at 31 December 2016
Salaries, bonuses, allowances	1,648,185	3,157,412	(3,026,652)	1,778,945
Staff welfare	-	170,715	(170,715)	-
Social insurance				
- Medical insurance	-	169,186	(169,186)	-
- Work-related injury insurance	-	3,059	(3,059)	-
- Maternity insurance	-	15,116	(15,116)	-
Housing fund	-	230,404	(230,404)	-
Labour union fee, staff and workers' education fee	407	71,079	(58,212)	13,274
Others	128	200,627	(200,578)	177
<b>Total</b>	<b>1,648,720</b>	<b>4,017,598</b>	<b>(3,873,922)</b>	<b>1,792,396</b>

## (ii) Post employment benefits – defined contribution plans

The Group				
	As at 1 January 2017	Increased during the year	Decreased during the year	As at 31 December 2017
Basic pension insurance	-	341,877	(341,877)	-
Unemployment insurance	-	9,974	(9,974)	-
Annuity	-	149,542	(149,542)	-
Others	-	7,043	(7,043)	-
<b>Total</b>	<b>-</b>	<b>508,436</b>	<b>(508,436)</b>	<b>-</b>

The Group				
	As at 1 January 2016	Increased during the year	Decreased during the year	As at 31 December 2016
Basic pension insurance	-	318,870	(318,870)	-
Unemployment insurance	-	16,752	(16,752)	-
Annuity	-	139,000	(139,000)	-
Others	-	7,305	(7,305)	-
<b>Total</b>	<b>-</b>	<b>481,927</b>	<b>(481,927)</b>	<b>-</b>

## Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

(iii) The other long-term employee benefits of the group are deferred payment which are accrued according to the requirements of regulators and the relevant regulations of the bank. The timeline for the deferred payment is three years.

(iv) There were no arrears balance among the Group's employee benefits payable.

### 24. Taxes payable

	Note	The Group		The Bank	
		31 December 2017	31 December 2016	31 December 2017	31 December 2016
Income tax payable		3,565,645	1,943,830	3,554,416	1,910,522
VAT and surcharges payable		576,551	158,354	572,857	155,269
Others	(i)	1,945	1,239	1,825	935
<b>Total</b>		<b>4,144,141</b>	<b>2,103,423</b>	<b>4,129,098</b>	<b>2,066,726</b>

(i) Others include property tax, land use tax and etc.

### 25. Interests payable

Analysed by type of financial liabilities

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deposits from customers	12,580,968	12,742,158	12,484,675	12,665,306
Deposits from banks and other financial institutions	2,055,176	1,779,959	2,056,071	1,779,355
Borrowings from central bank	1,125,317	745,226	1,125,301	745,192
Debt securities issued	375,447	378,282	359,884	359,884
Placements from banks and other financial institutions	294,531	127,078	290,976	126,082
Financial assets sold under repurchase agreements	139,120	76,393	87,094	46,039
Others	-	317	-	317
<b>Total</b>	<b>16,570,559</b>	<b>15,849,413</b>	<b>16,404,001</b>	<b>15,722,175</b>

### 26. Debt securities issued

	Note	The Group			
		1 January 2017	Issued for the year	Repaid for the year	31 December 2017
Negotiable certificates of deposit issued	(i)	214,359,983	597,850,000	(663,380,000)	150,635,724
Subordinated debts and tier 2 capital bonds issued	(ii)	14,986,196	-	-	14,989,466
Certificate of deposit	(iii)	1,734,206	2,603,600	(2,343,240)	1,871,788
Other Note instruments	(iv)	-	651,100	-	651,100
<b>Total</b>		<b>231,080,385</b>	<b>601,104,700</b>	<b>(665,723,240)</b>	<b>168,148,078</b>

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

		The Bank				
	Note	1 January 2017	Issued for the year	Repaid for the year	Amortisation of discounts or premiums	31 December 2017
Negotiable certificates of deposit issued	(i)	214,359,983	597,850,000	(663,380,000)	1,805,741	150,635,724
Subordinated debts and tier 2 capital bonds issued	(ii)	14,986,196	-	-	3,270	14,989,466
<b>Total</b>		<b>229,346,179</b>	<b>597,850,000</b>	<b>(663,380,000)</b>	<b>1,809,011</b>	<b>165,625,190</b>

The Group						
	Note	1 January 2016	Issued for the year	Repaid for the year	Amortisation of discounts or premiums	31 December 2016
Negotiable certificates of deposit issued	(i)	106,322,329	356,200,000	(246,990,000)	(1,172,346)	214,359,983
Subordinated debts and tier 2 capital bonds issued	(ii)	14,982,926	-	-	3,270	14,986,196
Certificate of deposit	(iii)	2,634,502	2,084,940	(2,935,968)	(49,268)	1,734,206
<b>Total</b>		<b>123,939,757</b>	<b>358,284,940</b>	<b>(249,925,968)</b>	<b>(1,218,344)</b>	<b>231,080,385</b>

		The Bank				
	Note	1 January 2016	Issued for the year	Repaid for the year	Amortisation of discounts or premiums	31 December 2016
Negotiable certificates of deposit issued	(i)	106,322,329	356,200,000	(246,990,000)	(1,172,346)	214,359,983
Subordinated debts and tier 2 capital bonds issued	(ii)	14,982,926	-	-	3,270	14,986,196
<b>Total</b>		<b>121,305,255</b>	<b>356,200,000</b>	<b>(246,990,000)</b>	<b>(1,169,076)</b>	<b>229,346,179</b>

(i) As at 31 December 2017, the Group and the Bank held 75 unmaturing negotiable certificates of deposit that were issued in the inter-bank market. The maximum maturity is 365 days. The interest rate ranges from 3.85% to 5.52% (As at 31 December 2016, the Group and the Bank held 175 unmaturing negotiable certificates of deposit that were issued in the inter-bank market. The maximum maturity is 366 days. The interest rate ranges from 2.75% to 4.60%).

(ii) As at the balance sheet date, details for subordinated debts and tier 2 capital bonds issued by the Group and the Bank are shown as follows:

	Note	31 December 2017	31 December 2016
Subordinated fixed rate bonds maturing in May 2021	(a)	2,500,000	2,500,000
Subordinated fixed rate bonds maturing in May 2026	(a)	2,500,000	2,500,000
Subordinated fixed rate bonds maturing in December 2027	(b)	4,994,611	4,993,521
Fixed-rate tier 2 capital bonds maturing in May 2025	(c)	4,994,855	4,992,675
<b>Total</b>		<b>14,989,466</b>	<b>14,986,196</b>

(a) The Group issued two tranches of subordinated bonds total amounting to RMB5 billion in the inter-bank market, including 10-years bonds with face value of RMB2.5 billion and 15-years bonds with face value of RMB2.5 billion on 20 May 2011. The 10-years bonds bear a fixed annual coupon interest rate of 5.6% and the 15-years bonds bear a fixed annual coupon interest rate of 5.8%.

(b) The Group issued 15-years fixed interest rate bonds with face value RMB5 billion on 5 December 2012. The coupon interest rate per annum is 5.35%. The Group has the option to redeem all of the bonds at face value on 6 December 2022 upon regulatory approval.

(c) The Group issued 10-years fixed-rate tier 2 capital bonds with face value RMB5 billion on 7 May 2015. The coupon interest rate per annum is 5.32%. The Group has the option to redeem all of the bonds at face value on 11 May 2020 upon regulatory approval.

(iii) Certificates of deposit issued by the Group were issued publicly by Hong Kong Subsidiary in the Hong Kong market. As at 31 December 2017, the Group held 8 unmaturing certificates of deposit. The maximum maturity is 1095 days. The interest rate ranges from 2.14% to 2.73% (As at 31 December 2016, the Group held 9 unmaturing certificate of deposit. The maximum maturity is 366 days. The interest rate ranges from 1.46% to 1.82%).

(iv) As at 31 December 2017, 2 other Note instruments total amounting to RMB 650 million issued by the Group were issued nonpublicly by BOSCI International Company Limited ("BOSCI International"). The maximum maturity is 365 days and the coupon interest rate per annum is 3.3% (31 December 2016: nil).

## 27. Other liabilities

	The Group	
	31 December 2017	31 December 2016
Suspense account for clearing	1,026,967	1,287,212
Payment and collection clearance accounts	307,147	563,330
Dormant accounts	227,689	257,803
Dividend payable	162,042	144,561
Payables for purchase of long-term assets	110,054	140,260
Others	1,015,979	996,812
<b>Total</b>	<b>2,849,878</b>	<b>3,389,978</b>

## 28. Share capital

	The Group and The Bank		
	1 January 2017	Share capital increased by capital reserve transfer	31 December 2017
Share capital listed in mainland China	6,004,450	1,801,335	7,805,785

As explained in Note V.34, pursuant to the Shareholders' resolutions approved on 23 June 2017, the Bank increased 3 shares per 10 shares from capital reserve on basis of the share capital at the end of 2016 which was 6,004,450 thousand shares. The share capital of the Bank was subsequently increased by RMB1.8 billion.

## 29. Other equity instruments

(1) Preference shares that remain outstanding at the end of the year are set out as follows:

Outstanding financial instruments	Issuance date	Accounting classification	Dividend or interest rate	Issuance price /RMB	Quantity /Million	Amount /Thousand	Maturity date or renewal status	Conditions for conversion	Conversion status
Preference shares	December 2017	Equity instruments	5.20%	100/share	200	20,000,000	Sustainable	Compulsory	None
Minus: issuance cost						(42,830)			
<b>Total</b>						<b>19,957,170</b>			

### (2) Major terms

#### (i) Dividend

Adjustable rate for a certain stage, which means that the dividends will be paid at the same rate within a period and the rate will be reset every five years.

The coupon dividend rate includes the benchmark interest rate and the fixed premium. The benchmark interest rate is the arithmetic average of the yield of the national debt for five years in the first twenty trading days (exclude the day) for the deadline of the issue of the priority share or the adjustment day of the benchmark interest rate (repricing day). The benchmark interest rate will be adjusted every five years from the date of issuing the preferred shares. The fixed premium is determined by the coupon dividend rate at the issue date, after deducting the benchmark rate. Once the fixed premium determined, it will be no longer adjusted.

At the repricing day, a new dividend rate will be determined by the sum of benchmark rate at the day and the initial fixed premium.

Dividends will be paid annually.

#### (ii) Conditions to distribution of dividends

The Bank could pay dividends while the Bank still has distributable after-tax profit after making up previous years' losses, contributing to the statutory reserve and making general provisions, and the Bank's capital adequacy ratio meets regulatory requirements. Preference shareholders of the Bank are senior to the ordinary shareholders on the right to dividends. Dividend payments are not linked to the bank's own ratings, nor are they adjusted to the rating changes.

The Bank may elect to cancel any dividend and it do not constitute a breach of contract. The bank can freely control the cancellation of preferred stock dividends for repayment of other debts due. The cancellation of preferred stock dividends does not constitute any other restrictions on the bank, except for the dividend distribution restrictions on common stock.

#### (iii) Dividend stopper

The Bank will inform Preference Shareholders at least ten days before the interest payment day if the Bank cancels the dividends to the Preference Shareholders. If the Bank cancels all or part of the dividends to the Preference Shareholders, the Bank shall not make any dividend distribution to ordinary shareholders before the Bank pays the dividends for the current dividend period to the Preference Shareholders in full. Pay the dividends in full indicate that the Bank determine to begin paying all the dividends to Preference Shareholders. Since the preferred share is paid by non-cumulative dividends, the bank will not distribute dividends that have been cancelled in the previous year.

#### (iv) Order of distribution and liquidation method

Preferred shareholders prefer priority to common shareholders to allocate residual assets. The amount paid is the sum of the preferred shares which has been issued and still existent and the dividends has been declared but not paid during the current period. The amount not sufficient to pay is allocated according to the proportion of preferred shareholders. The Preference Shareholders as well as the new Preference Shareholders in the future will rank equally for payment. The order arrangement of the preferred shareholders and the holders of other tier one capital instruments issued by the bank in the future subject to the relevant regulatory requirements.

#### (v) Mandatory conversion trigger events

Upon the occurrence of an Additional Tier 1 Capital Trigger Event (Core Tier 1 Capital Adequacy Ratio of the Group falling to 5.125% or below), the Bank shall have the right to convert all or part of the Preference Shares into A shares, in order to restore the Core Tier 1 Capital Adequacy Ratio of the Group to be above 5.125%. In the case of partial transfer, the preferred stock will be converted into shares on the same proportion and on the same terms.

Upon the occurrence of a Non-Viability Trigger Event (Earlier of the two situations: (1) CBRC has determined that the Bank would become non-viable if there is no conversion or write-down of preference share; or (2) the relevant authorities have determined that a public sector injection of capital or equivalent support is necessary, without which the Bank would become non-viable), the Bank shall have the right to convert all Preference Shares into A shares.

If Preference Shares were converted to A shares, they may not be converted to Preference Shares again.

#### (vi) Redemption

The preferred shares have no maturity date. After five years since the date of issuance under the premise of obtaining the approval of the CBRC and compliance with regulatory requirements, the Bank has right to redeem all or some of domestic

## Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

preference shares at the payment day of each year. The redemption period of preference shares ranges from five years after the issue date to the date of full redemption or conversion.

Redemption price is equal to book value plus accrued dividend in current period.

### (3) Movement of the preference shares that remain outstanding at the end of the year:

Outstanding financial instruments	At the beginning of the year		Additions during the year		At the end of the year	
	Quantity Million	Carrying value Thousand	Quantity Million	Carrying value Thousand	Quantity Million	Carrying value Thousand
Preference shares	-	-	200	19,957,170	200	19,957,170

### (4) Relevant information of amounts attributable to holders of equity instruments

	31 December 2017	31 December 2016
Equity attributable to shareholders of the Company	146,985,136	115,769,223
- Equity attributable to ordinary shareholders of the Company	127,027,966	115,769,223
- Equity attributable to holders of the Company's other equity instruments	19,957,170	-
Equity attributable to non-controlling shareholders	456,267	449,391
- Equity attributable to non-controlling ordinary shareholders	456,267	449,391
- Equity attributable to non-controlling shareholders of other equity instruments	-	-

## 30. Capital reserve

	The Group and The Bank			
	As at 1 January 2017	Additions during the year	Decrease during the year (i)	As at 31 December 2017
Share premium	30,253,538	-	(1,801,335)	28,452,203

	As at 1 January 2016	Additions during the year (ii)	Decrease during the year	As at 31 December 2016
Share premium	20,392,698	9,860,840	-	30,253,538

(i) As explained in Note V.34, pursuant to the Shareholders' resolutions approved on 23 June 2017, the Bank increased 3 shares per 10 shares from capital reserve on basis of the share capital at the end of 2016 which was 6,004,450 thousand shares. The share capital of the Bank was subsequently increased by RMB1.8 billion.

(ii) The Bank issued 600.45 million common shares (A share) through initial public offering at a price of RMB17.77 per share in November 2016, and the IPO's raised fund was RMB10.670 billion. The net raised fund was RMB10.461 billion after deducting relative costs. RMB600 million was recognised in Share capital of the Bank according to the face value of the shares, and the premium RMB9.86 billion was recognised in Capital reserve of the Bank.

## 31. Other comprehensive income

Item	The Group						
	2017						
	Balance at the beginning of the year attributable to shareholders of the Bank	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount attributable to shareholders of the Bank	Net-of-tax amount attributable to non-controlling interests	Balance at the end of the year attributable to shareholders of the Bank
<b>Items that may be reclassified to profit or loss</b>							
Including: Gain or loss arising from changes in fair value of available-for-sale financial assets	178,442	(788,802)	(260,104)	263,075	(797,075)	11,244	(618,633)
Translation differences arising from translation of foreign currency financial statements	317,752	(270,456)	-	-	(270,456)	-	47,296
<b>Total</b>	<b>496,194</b>	<b>(1,059,258)</b>	<b>(260,104)</b>	<b>263,075</b>	<b>(1,067,531)</b>	<b>11,244</b>	<b>(571,337)</b>



# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

Item	The Bank					
	2017					
	Balance at the beginning of the year	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	Other comprehensive Balance at the end of the year
<b>Items that may be reclassified to profit or loss</b>						
Gain or loss arising from changes in fair value of available-for-sale financial assets	124,620	(968,120)	(250,232)	304,588	(913,764)	(789,144)

Item	The Group						
	2016						
	Balance at the beginning of the year attributable to shareholders of the Bank	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount attributable to shareholders of the Bank	Net-of-tax amount attributable to non-controlling interests	Balance at the end of the year attributable to shareholders of the Bank
<b>Items that may be reclassified to profit or loss</b>							
Including: Gain or loss arising from changes in fair value of available-for-sale financial assets	1,769,680	(1,982,015)	(136,254)	520,827	(1,591,238)	(6,204)	178,442
Translation differences arising from translation of foreign currency financial statements	117,344	200,408	-	-	200,408	-	317,752
<b>Total</b>	<b>1,887,024</b>	<b>(1,781,607)</b>	<b>(136,254)</b>	<b>520,827</b>	<b>(1,390,830)</b>	<b>(6,204)</b>	<b>496,194</b>

Item	The Bank					
	2016					
	Balance at the beginning of the year	Before-tax amount	Less: Previously recognised amount transferred to profit or loss	Less: Income tax expense	Net-of-tax amount	Other comprehensive Balance at the end of the year
<b>Items that may be reclassified to profit or loss</b>						
Gain or loss arising from changes in fair value of available-for-sale financial assets	1,638,773	(1,944,527)	(74,344)	504,718	(1,514,153)	124,620

## 32. Surplus reserve

	The Group and The Bank		
	Statutory surplus reserve	Discretionary surplus reserve	Total
As at 1 January 2016	7,031,970	11,370,944	18,402,914
Appropriation	1,274,810	2,549,620	3,824,430
As at 31 December 2016	8,306,780	13,920,564	22,227,344
<b>As at 1 January 2017</b>	<b>8,306,780</b>	<b>13,920,564</b>	<b>22,227,344</b>
<b>Appropriation</b>	<b>1,402,652</b>	<b>2,805,304</b>	<b>4,207,956</b>
<b>As at 31 December 2017</b>	<b>9,709,432</b>	<b>16,725,868</b>	<b>26,435,300</b>

In accordance with Company Law of the People's Republic of China and the Bank's Articles of Association, the Bank is required to appropriate 10% of its net profit to the statutory surplus reserve until the balance reaches 50% of its registered capital. Subject to the approval of shareholders' meeting, statutory and discretionary surplus reserves may be used to net off with accumulated losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital.

After the appropriation of statutory surplus reserve, discretionary surplus reserve may be appropriated from the net profit subject to the approval of shareholders' meeting. Upon the approval of shareholders' meeting, discretionary surplus reserves may be used to net off with accumulated losses, if any, and may be converted into capital.

As at 1 January 2016, the balance of the statutory surplus reserve of the Bank has reached 50% of its registered capital. The Bank continued to appropriate 10% of its net profit to the statutory surplus reserve according to the shareholders' resolutions on 22 April 2016 and 23 June 2017.

## 33. General reserve

	The Group		The Bank	
	2017	2016	2017	2016
As at 1 January	21,245,093	16,668,113	21,130,000	16,600,000
Appropriation	4,535,163	4,576,980	4,500,000	4,530,000
As at 31 December	25,780,256	21,245,093	25,630,000	21,130,000

According to the Notice on Administrative Measures on Accrual of Provisions by Financial Enterprises (Cai Jin [2012] No.20) issued by the MOF, a financial enterprise shall appropriate from net profits an amount of not less than 1.5% of its risk-bearing assets at the year end as general reserve.

General reserve of the Group also includes other general reserves accrued by the Bank's subsidiaries in accordance with the laws and regulations applicable to the business industry or region.

## 34. Appropriation of profits

(i) In accordance with the resolution of the shareholders' meeting of the Bank on 23 June 2017, the shareholders approved the following profit appropriations and capital reserve addition for the year ended 31 December 2016:

- 10% of the profit after tax for the statutory surplus reserve of year 2016;
- 20% of the profit after tax for the discretionary surplus reserve of year 2016;
- RMB4.5 billion for the general reserve;
- RMB5.00 per 10 shares (including tax) with the aggregate amount of RMB3,002 million as cash dividend to the shareholders on the register; and
- Converting capital reserve into new shares on the basis of 6,004,450,000 shares of the total share capital at the end of 2016, by three shares for every ten existing shares with the total new shares amounting to RMB1.801 billion.

(ii) In accordance with the resolution of the shareholders' meeting of the Bank on 22 April 2016, the shareholders approved the following profit appropriations for the year ended 31 December 2015:

- 10% of the profit after tax for the statutory surplus reserve of year 2015;
- 20% of the profit after tax for the discretionary surplus reserve of year 2015;
- RMB4,530 million for the general reserve; and
- no cash dividend was distributed in 2015.

## 35. Net interest income

Note	The Group		The Bank	
	2017	2016	2017	2016
Investment in debt instruments	26,273,058	30,078,807	26,488,798	30,444,251
Loans and advances to customers				
- Corporate loans and advances	17,757,665	15,679,549	17,044,493	15,215,763

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

	Note	The Group		The Bank	
		2017	2016	2017	2016
- Personal loans and advances		6,857,596	5,092,823	6,794,190	5,036,607
- Discounted bills		1,923,105	3,392,909	1,920,819	3,391,685
Placements with banks and other financial institutions		3,487,554	2,591,231	3,377,815	2,490,784
Deposits with central bank		2,028,931	2,055,481	2,024,335	2,051,210
Financial assets held under resale agreements		889,683	862,428	750,999	523,766
Deposits with banks and other financial institutions		751,856	747,288	733,602	745,423
Others		112,837	151,415	117,697	147,866
<b>Interest income</b>	(i)	<b>60,082,285</b>	<b>60,651,931</b>	<b>59,252,748</b>	<b>60,047,355</b>
Deposits from customers					
- Corporate customers		(11,677,442)	(11,317,642)	(11,396,426)	(11,160,501)
- Individual customers		(4,520,908)	(4,817,636)	(4,510,894)	(4,807,812)
Deposits from banks and other financial institutions		(9,215,618)	(8,388,241)	(9,255,032)	(8,400,685)
Debt securities issued		(8,353,584)	(6,197,430)	(8,307,347)	(6,161,273)
Borrowings from central bank		(2,935,567)	(1,173,071)	(2,932,962)	(1,171,124)
Financial assets sold under repurchase agreements		(2,611,742)	(1,898,268)	(2,601,399)	(1,898,262)
Placements from banks and other financial institutions		(1,645,187)	(767,785)	(1,606,615)	(745,871)
Others		(4,928)	(93,749)	(4,928)	(93,749)
<b>Interest expense</b>		<b>(40,964,976)</b>	<b>(34,653,822)</b>	<b>(40,615,603)</b>	<b>(34,439,277)</b>
<b>Net interest income</b>		<b>19,117,309</b>	<b>25,998,109</b>	<b>18,637,145</b>	<b>25,608,078</b>

(i) Interest income arising from impaired financial assets is listed as follows:

	The Group		The Bank	
	2017	2016	2017	2016
Interest income arising from impaired loans and advances to customers	105,336	138,639	103,226	136,927

## 36. Net fee and commission income

	The Group		The Bank	
	2017	2016	2017	2016
Agency service fees	1,919,918	1,902,481	1,735,989	1,549,043
Bank card fees	1,353,300	843,749	1,353,300	843,749
Custodian and other fiduciary service fees	1,239,868	1,318,316	1,202,750	1,316,690
Advisory service fees	1,183,029	1,562,777	1,164,082	1,539,649
Settlement and clearing fees	170,042	156,871	169,663	156,138
Electronic banking service fees	75,962	44,690	75,962	44,690
Others	843,439	655,425	768,740	619,203
<b>Fee and commission income</b>	<b>6,785,558</b>	<b>6,484,309</b>	<b>6,470,486</b>	<b>6,069,162</b>
Bank card charges	(220,554)	(144,911)	(220,554)	(144,911)
Agency expenses	(83,874)	(26,016)	(83,874)	(26,016)
Settlement and clearing charges	(75,293)	(79,288)	(74,973)	(78,989)
Others	(150,051)	(77,250)	(148,638)	(76,262)
<b>Fee and commission expense</b>	<b>(529,772)</b>	<b>(327,465)</b>	<b>(528,039)</b>	<b>(326,178)</b>
<b>Net fee and commission income</b>	<b>6,255,786</b>	<b>6,156,844</b>	<b>5,942,447</b>	<b>5,742,984</b>



### 37. Net investment gains

	The Group		The Bank	
	2017	2016	2017	2016
Net gains/(losses) during the period in which financial instruments are held				
- Bonus income	8,692,396	2,056,261	8,677,600	2,049,097
- Dividend income	34,866	38,737	87,839	44,046
- Others	(1,199)	1,062	(1,199)	1,062
Net gains / (losses) from disposal of financial instruments				
- Available-for-sale financial assets	260,104	136,254	250,232	74,344
- Precious metal	465,886	115,074	465,886	115,074
- Derivatives	452,185	(588,934)	465,315	(597,157)
- Financial assets at fair value through profit or loss	(263,423)	(109,953)	(260,350)	(130,078)
Gains/(losses) from investment in long-term equity accounted for using equity method	(4,292)	(1)	(4,885)	-
<b>Total</b>	<b>9,636,523</b>	<b>1,648,500</b>	<b>9,680,438</b>	<b>1,556,388</b>

### 38. Net (losses)/gains from changes in fair value

	The Group		The Bank	
	2017	2016	2017	2016
Derivatives	(5,183,248)	1,417,996	(5,227,118)	1,461,064
Precious metal	(320,215)	702,293	(320,215)	702,293
Financial assets at fair value through profit or loss	(66,449)	(1,214)	(76,455)	(3,833)
<b>Total</b>	<b>(5,569,912)</b>	<b>2,119,075</b>	<b>(5,623,788)</b>	<b>2,159,524</b>

### 39. General and administrative expenses

	The Group		The Bank	
	2017	2016	2017	2016
<b>Staff costs</b>				
- Short-term employee benefits	4,019,316	4,017,598	3,882,035	3,802,955
- Post-employment benefits – defined contribution plans	508,436	481,927	495,849	469,891
- Termination benefits	(1,131)	(1,041)	(1,131)	(1,041)
- Other long-term employee benefits	419,032	272,283	353,644	272,283
<b>Sub-total</b>	<b>4,945,653</b>	<b>4,770,767</b>	<b>4,730,397</b>	<b>4,544,088</b>
<b>Premises and equipment expenses</b>				
- Depreciation and amortisation	667,821	751,610	648,352	715,849
- Rental and property management expenses	771,928	725,285	736,952	687,963
- Utility charges	87,174	96,952	85,479	94,925
- Others	26,463	28,307	25,311	27,513
<b>Sub-total</b>	<b>1,553,386</b>	<b>1,602,154</b>	<b>1,496,094</b>	<b>1,526,250</b>
Other general and administrative expenses	1,606,319	1,502,990	1,549,028	1,451,752
<b>Total</b>	<b>8,105,358</b>	<b>7,875,911</b>	<b>7,775,519</b>	<b>7,522,090</b>

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

## 40. Impairment losses

	The Group		The Bank	
	2017	2016	2017	2016
Loans and advances to customers	6,082,971	4,721,745	5,705,510	4,611,306
Investment securities classified as receivables	2,263,425	4,247,406	2,499,712	4,247,406
Available-for-sale financial assets	145,773	568,777	145,773	578,777
Financial assets held under resale agreements	135,454	-	-	-
Placements with banks and other financial institutions	9,637	9,692	9,637	9,692
Held-to-maturity investments	1,959	1,637	1,959	1,637
Others	32,096	27,087	(5,503)	13,392
<b>Total</b>	<b>8,671,315</b>	<b>9,576,344</b>	<b>8,357,088</b>	<b>9,462,210</b>

## 41. Income tax expenses

### (1) Income tax expenses

	The Group		The Bank	
	2017	2016	2017	2016
Current tax	3,967,227	3,925,514	3,887,160	3,805,107
Deferred tax	(2,472,018)	(1,018,818)	(2,443,591)	(996,507)
Tax filling differences	(749,540)	(912,387)	(741,485)	(912,440)
<b>Total</b>	<b>745,669</b>	<b>1,994,309</b>	<b>702,084</b>	<b>1,896,160</b>

### (2) Reconciliations between income tax expenses and accounting profit

	Note	The Group		The Bank	
		2017	2016	2017	2016
<b>Profit before tax</b>		<b>16,082,462</b>	<b>16,319,373</b>	<b>15,816,263</b>	<b>15,922,680</b>
Expected income tax at statutory tax rate of 25%		4,020,615	4,079,843	3,954,066	3,980,670
Effect of different tax rates applied by certain subsidiaries		(19,042)	(12,073)	-	-
Tax effect of non-taxable income	(i)	(3,576,627)	(2,235,783)	(3,576,092)	(2,214,121)
Tax effect of non-deductible expenses	(ii)	306,819	65,000	302,151	32,342
Adjustments for prior years		13,904	97,322	21,959	97,269
<b>Income tax expenses</b>		<b>745,669</b>	<b>1,994,309</b>	<b>702,084</b>	<b>1,896,160</b>

(i) Non-taxable income mainly represent interest income from PRC government bonds and investment gains from equity investments.

(ii) Non-deductible expenses mainly represent staff costs in excess of the deductible threshold, non-deductible entertainment expenses and donations.

## 42. Note to the statement of cash flow

### (1) Reconciliation of net profit to cash flows from operating activities

	The Group		The Bank	
	2017	2016	2017	2016
<b>Profit for the year</b>	<b>15,336,793</b>	<b>14,325,064</b>	<b>15,114,179</b>	<b>14,026,520</b>
Adjustments:				
Impairment losses	8,671,315	9,576,344	8,357,088	9,462,210
Unwinding of discount	(105,336)	(138,639)	(103,226)	(136,927)
Depreciation and amortisation	667,821	751,610	648,352	715,849
Net (losses) / gains from disposal of fixed assets	(9,905)	5,296	(9,905)	5,296
Net (gains) / losses from changes in fair value	5,569,912	(2,119,075)	5,623,788	(2,159,524)
Foreign exchange losses / (gains)	273,538	(297,033)	477,826	(422,116)
Net investment gains	(8,981,875)	(2,232,313)	(9,009,587)	(2,168,549)
Interest income from investment in debt instruments	(25,939,248)	(29,974,385)	(26,154,988)	(30,339,829)
Interest expenses on debt securities issued	8,353,584	6,197,430	8,307,347	6,161,273
Deferred taxation	(2,472,018)	(1,018,818)	(2,443,591)	(996,507)
(Increase) / decrease in operating receivables	(148,876,995)	1,598,249	(150,179,569)	(14,667,855)
Increase in operating payables	86,745,125	174,172,182	83,948,209	172,644,042
<b>Net cash (outflow) / inflow from operating activities</b>	<b>(60,767,289)</b>	<b>170,845,912</b>	<b>(65,424,077)</b>	<b>152,123,883</b>

### (2) Changes in cash and cash equivalents

	The Group		The Bank	
	2017	2016	2017	2016
Cash and cash equivalents at the end of the year	85,072,926	83,954,898	81,721,170	79,959,462
Cash and cash equivalents at the beginning of the year	(83,954,898)	(102,071,981)	(79,959,462)	(97,799,730)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>1,118,028</b>	<b>(18,117,083)</b>	<b>1,761,708</b>	<b>(17,840,268)</b>

### (3) Cash and cash equivalents

	The Group		The Bank	
	2017	2016	2017	2016
Cash on hand	2,072,258	1,905,637	2,063,514	1,898,826
Balance with central bank other than restricted deposits	10,389,960	12,956,259	10,113,157	12,757,391
Deposits with banks and other financial institutions with original maturity of three months or less	19,773,136	12,375,353	18,794,874	11,756,191
Placements with banks and other financial institutions with original maturity of three months or less	29,141,611	43,026,992	27,053,664	39,856,397
Financial assets held under resale agreements with original maturity of three months or less	23,695,961	13,690,657	23,695,961	13,690,657
<b>Cash and cash equivalents at the end of the year</b>	<b>85,072,926</b>	<b>83,954,898</b>	<b>81,721,170</b>	<b>79,959,462</b>

## VI. Interests in other entities

### 1. Interests in subsidiaries and structured entities included in the consolidated financial statements

Composition of the Group

Main subsidiaries directly held through establishment:

<u>Name</u>	<u>The Bank's shareholding percentage (i)</u>	<u>The Bank's voting rights percentage (i)</u>	<u>Registered capital</u>	<u>Place of operation and registration and date of establishment</u>	<u>Primary business</u>
Minhang Rural	51%	51%	RMB227.5 million	Shanghai, 16 Feb 2011	Commercial banking
Qujiang Rural	51%	51%	RMB100 million	Zhejiang, 20 Jun 2011	Commercial banking
Jiangning Rural	51%	51%	RMB200 million	Jiangsu, 24 May 2012	Commercial banking
Chongzhou Rural	51%	51%	RMB130 million	Sichuan, 21 Jun 2012	Commercial banking
Asset Management	90%	90%	RMB300 million	Shanghai, 30 Aug 2013	Asset management

Main subsidiaries indirectly held through establishment:

<u>Name</u>	<u>The Bank's shareholding percentage (i)</u>	<u>The Bank's voting rights percentage (i)</u>	<u>Registered capital</u>	<u>Place of operation and registration and date of establishment</u>	<u>Primary business</u>
BOSC International	100%	100%	HKD780 million	Hong Kong, 5 Mar 2014	Investment banking
BOSC Ruijin Asset Management (Shanghai) Co., Ltd. ("BOSC Ruijin")	90%	100%	RMB130 million	Shanghai, 17 Mar 2014	Asset management
Shanghai Junlian Investment Management Ltd. ("Junlian Investment")	90%	100%	RMB100 thousand	Shanghai, 3 Jun 2015	Investment management
BOSC International Capital Limited	100%	100%	HKD10 million	Hong Kong, 5 Oct 2016	Corporate finance
BOSC International Asset Management Limited	100%	100%	HKD5 million	Hong Kong, 5 Oct 2016	Asset management
BOSC International Investment Limited	100%	100%	HKD1 million	Hong Kong, 5 Oct 2016	Investment
BOSC International Securities Limited	100%	100%	HKD10 million	Hong Kong, 11 Oct 2016	Securities agent
BOSC International (Shenzhen) Company Limited	100%	100%	RMB100 million	Shenzhen, 27 May 2017	Investment advisory
BOSC International (BVI) Limited	100%	100%	USD1	British Virgin Island, 6 Jul 2017	Financing
BOSC International Consulting (Shenzhen) Company Limited	100%	100%	RMB10 million	Shenzhen, 15 Sep 2017	Advisory
BOSC International Equity Investment Fund Management (Shenzhen) Company Limited	100%	100%	RMB10 million	Shenzhen, 20 Nov 2017	Investment management
BOSC International Investment (Shenzhen) Company Limited	100%	100%	RMB10 million	Shenzhen, 23 Nov 2017	Investment
BOSC International Investment (BVI) Limited	100%	100%	USD1	British Virgin Island, 22 Dec 2017	Investment



# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

## Main subsidiaries directly held through business combination of entities not under common control:

Name	The Bank's shareholding percentage (i)	The Bank's voting rights percentage (i)	Registered capital	Place of operation and registration	Primary business
Hong Kong Subsidiary (ii)	100%	100%	HKD4 billion	Hong Kong	Commercial banking

## Structured entities that are included in the consolidated financial statements:

As at 31 December 2017, the net assets of the structured entities included in the consolidated financial statements are RMB10.5 billion (31 December 2016: RMB30.5 billion). The interests held by the Bank and its subsidiaries in the above structured entities are recognised as available-for-sale financial assets and investment securities classified as receivables in their balance sheets, totalling RMB1.8 billion and RMB8.6 billion respectively (31 December 2016: RMB7.8 billion of available-for-sale financial assets and RMB22.6 billion of investment securities classified as receivables).

Management judges whether the Group controls investees and structured entities in accordance with the control elements listed in Note III.4. The Group involves in operating activities of investees by holding shares of investees and exercising the corresponding voting rights. When judging whether the Group controls the investees, the Group assesses the purpose of setting up the investee, related activities and decision-making mechanism, the proportion of voting rights held by the Group and its ability to influence variable interests through voting rights and other rights. After the assessment, if the Group conclude that it controls an investee, the investee will be consolidated in the consolidated financial statements.

The Group manages or invests in several structured entities, including asset management plans, debt investment plans, wealth management products, asset-backed securities and investment funds. To judge whether the Group controls such structured entities, the Group assesses the overall interests (including direct income and expected management fees) in the structured entities through its participation in the decisions on the establishment of the structured entities, the extent of its participation and related contractual arrangements, as well as its decision-making power over the structured entities. If the Group has power over the structured entities through investment contracts and other arrangements, has variable interests through its involvement in the structured entities and has the ability to affect those interests through its power over the structured entities, the Group considers that it controls the structured entities and then consolidates them in the consolidated financial statements. If the Group does not have substantive rights to the primary activities of the structured entities, or the Group acts as an agent instead of a main owner due to its insignificant proportion of the overall interests in the structured entities over which the Group has power, the Group does not consolidate the structured entities in the consolidated financial statements. For the information of the structured entities which the Group has interest in or acts as a sponsor but does not consolidate in the consolidated financial statements, see Note VI.3.

(i) The Bank's shareholding percentage and voting rights percentage are either direct or indirect percentage at the report date when the Bank has gained direct or indirect control over its subsidiaries through establishment or investment, or through business combination of entities not under common control.

(ii) On May 2013, the Bank acquired 100% stake in China Construction Bank (Asia) Finance Limited ("CCB Asia Finance") by cash. On June 2013, CCB Asia Finance was renamed Bank of Shanghai (Hong Kong) Ltd. Hong Kong Subsidiary's capital increased by HKD1.8 billion in 2014 and its registered capital increased from HKD200 million to HKD2 billion. Hong Kong Subsidiary's capital increased by HKD2 billion in 2016 and its registered capital increased from HKD2 billion to HKD4 billion.

## 2. Interests in associates

Item	The Group	
	2017	2016
Associates		
- Non-significant associates	395,131	18,423



## Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

### (i) Background of non-significant associates

Name	Direct Shareholding percentage	Nature of business	Registered capital	Place of operation and registration	Whether strategic significant to the Group's activities
Shangkang Yinchuang	40.00%	Asset management	RMB50 million	Shanghai	No
ShangCheng Finance	38.00%	Consumer finance	RMB1 billion	Shanghai	No
Science & Technology	16.67%	Supply chain science & technology	RMB6 million	Shenzhen	No

### (ii) Summary financial information on non-significant associates

Item	The Group	
	2017	2016
Carry amount of investment	395,131	18,423
Calculated based on shareholding percentage		
- Net profit	(4,292)	(1)
- Other comprehensive income	-	-
- Total comprehensive income	(4,292)	(1)

## 3. Interests in structured entities not included in the consolidated financial statements

### (1) Information of structured entities not included in the consolidated financial statements

The Group's structured entities not included in the consolidated financial statements include: asset management plan, wealth management products, investment fund, debt investment plan and asset-backed securities established by third parties that are directly held by the Group, as well as non-principal-guaranteed wealth management products and investment fund established by the Group. These structured entities are designed to manage investors' assets by offering them investment products to raise funds. The Group's interests in these structured entities not included in the consolidated financial statements mainly include direct investment and management fee income received for managing these structured entities.

Considering the definition of "control" described in Note III.4(2) and the principles set out in Note VI.1, relevant agreements and its investment into structured entities, the Group does not consolidate the above structured entities in the consolidated financial statements.

As at 31 December 2017 and 31 December 2016, relevant assets and liabilities as well as their carrying amount / maximum loss exposure of the Group's interests in these structured entities not included in the consolidated financial statements through direct investment are as follows:

	31 December 2017			
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment securities classified as receivables	Total
Asset management plan	-	28,669,696	120,841,274	149,510,970
Wealth management products	-	132,955,854	-	132,955,854
Investment fund	215,362	180,777,226	-	180,992,588
Debt investment plan	-	26,771,549	-	26,771,549
Asset-backed securities	-	982,399	-	982,399
<b>Total</b>	<b>215,362</b>	<b>370,156,724</b>	<b>120,841,274</b>	<b>491,213,360</b>

	31 December 2016			
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Investment securities classified as receivables	Total
Asset management plan	-	21,353,755	213,271,605	234,625,360
Wealth management products	-	171,121,951	-	171,121,951
Investment fund	411,728	124,385,790	-	124,797,518
Debt investment plan	-	30,092,215	-	30,092,215
Asset-backed securities	-	4,014,033	-	4,014,033
<b>Total</b>	<b>411,728</b>	<b>350,967,744</b>	<b>213,271,605</b>	<b>564,651,077</b>

The maximum loss exposure of the asset management plan is the fair value or amortised cost at the reporting date depending on classification of financial instruments in balance sheet. The maximum loss exposure of the wealth management products, investment fund, debt investment plan and asset-backed securities is the fair value at the reporting date.

## (2) Interests in structured entities established by third parties

The Group holds interests in structured entities established by third parties through direct investment. As at 31 December 2017 and 31 December 2016, relevant assets and liabilities as well as their carrying amount / maximum loss exposure of the Group's interests in these structured entities established by third parties through direct investment are as follows:

	31 December 2017		
	Available-for-sale financial assets	Investment securities classified as receivables	Total
Asset management plan	28,002,259	120,841,274	148,843,533
Wealth management products	132,863,476	-	132,863,476
Investment fund	172,217,223	-	172,217,223
Debt investment plan	26,771,549	-	26,771,549
Asset-backed securities	982,399	-	982,399
<b>Total</b>	<b>360,836,906</b>	<b>120,841,274</b>	<b>481,678,180</b>

	31 December 2016		
	Available-for-sale financial assets	Investment securities classified as receivables	Total
Asset management plan	21,353,755	213,271,605	234,625,360
Wealth management products	171,121,951	-	171,121,951
Investment fund	116,818,114	-	116,818,114
Debt investment plan	30,092,215	-	30,092,215
Asset-backed securities	4,002,406	-	4,002,406
<b>Total</b>	<b>343,388,441</b>	<b>213,271,605</b>	<b>556,660,046</b>

The maximum loss exposure of the asset management plan is the fair value or amortised cost recognised in the balance sheet by their classification at the balance sheet date. The maximum loss exposure of the wealth management products, investment funds, debt investment plans and asset-backed securities is the fair value recognised on the balance sheet date.

## (3) Interests in structured entities established by the Bank, but not included in the consolidated financial statements

Determination of the Group as promoter of a structured entity is based on the fact that the Group has played a key role in the process of setting up the structured entity or jointly setting up the entity with other parties, and that the structured entity represents an extension of the Group's main activities and maintains close business relationship with the Group after its establishment.

According to the above determination criteria, structured entities not included in the financial statements (the Group as promoter) include the Group's non-principal-guaranteed wealth management products, investment fund and asset-backed securities. As at 31 December 2017, the carrying amount of the Group's management fees receivable in the consolidated balance sheet was RMB301 million (31 December 2016: RMB216 million).

As at 31 December 2017 and 31 December 2016, relevant assets and liabilities as well as their carrying amount / maximum loss

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

exposure of the Group's interests in these structured entities established by the Group through direct investment are as follows:

31 December 2017			
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
Asset management plan	-	667,437	667,437
Investment fund	215,362	8,560,003	8,775,365
Wealth management products	-	92,378	92,378
<b>Total</b>	<b>215,362</b>	<b>9,319,818</b>	<b>9,535,180</b>

31 December 2016			
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
Investment fund	411,728	7,567,676	7,979,404
Asset-backed security	-	11,627	11,627
<b>Total</b>	<b>411,728</b>	<b>7,579,303</b>	<b>7,991,031</b>

The maximum loss exposure of the asset management plan, the investment fund and the asset-backed security is the fair value at the reporting date.

As at 31 December 2017, balance of the non-principal-guaranteed wealth management products established by the Group but not included in the Group's the consolidated financial statements was RMB230.2 billion (31 December 2016: RMB226.7 billion), balance of the investment fund and asset management plan established by the Group but not included in the Group's the consolidated financial statements was RMB158.8 billion (31 December 2016: RMB192.9 billion), and there was no asset-backed security established by the Group but not included in the Group's the consolidated financial statements (31 December 2016: RMB12 million).

## (4) Structured entities which the Group no longer held interests in and were not included in the consolidated financial statements as at 31 December 2017:

The Group's commission income from such non-principal-guaranteed wealth management products was RMB1,243 million in 2017 (2016: RMB905 million).

In 2017, the total volume of matured non-principal-guaranteed wealth management products issued by the Group amounted to RMB401.1 billion (2016: RMB312.9 billion).

The Group's income from such asset management plan and investment fund was immaterial in 2017 (2016: not material).

## VII. Transfer of financial assets

In normal course of business, the Group transfers the recognised financial assets to third parties in some transactions. These financial assets are derecognised in whole or in part if they meet the criteria for derecognition. When the Group retains substantial risk and return of the transferred assets, transfer of these financial assets does not meet the criteria for derecognition and the Group still recognises these assets in the balance sheet.

### 1. Transferred but not entirely derecognised financial assets

The Group's transferred but not entirely derecognised transferred financial assets mainly include debt securities loaned. The counterparties may sell such debt securities or use them for guarantees if the Group has no any default, but are also obliged to return these debt securities to the Group on the agreed due date. For these transaction, the management believes that the Group retains most risk and return. Thus, these debt securities are therefore not derecognised.

Debt securities lending transactions	The Group and The Bank			
	31 December 2017		31 December 2016	
	Held-to-maturity Investment	Available-for-sale financial assets	Held-to-maturity Investment	Available-for-sale financial assets
Carrying amount of transferred financial assets	18,138,084	-	1,114,829	121,081

## 2. Transferor's continuing involvement in transferred financial assets that are derecognised in their entirety

The Group sells credit assets to a special purpose trust, which will then issue asset-backed securities to investors. The Group holds a portion of the credit asset-backed securities in such business, and thus retains its continuing involvement in the transferred credit assets. As at 31 December 2016, the Group retained a certain level of continuing involvement in securitised credit assets by holding part of the securities. The carrying amount of the securitised credit assets was RMB2,273 million at the date of transfer. The carrying amount of the assets that the Group continued to recognise was RMB12 million, and these assets were classified as available for sale financial assets. As at 31 December 2017, all the above securitised credit assets were due, and the Group and the Bank did not hold any financial assets that were derecognised with continuing involvement.

## VIII. Commitments and contingent liabilities

### 1. Credit commitments

The Group's credit commitments take the form of undrawn loan facilities which are approved and contracted, unutilised credit card limits, financial guarantees, letters of credit etc. The potential loss of credit commitments is assessed periodically and the provision is recognised as necessary.

The contractual amounts of loans and credit card commitments represent the cash outflows should the contracts be fully drawn upon. The contractual amounts of guarantees and letters of credit represent the maximum potential loss that would be recognised if counterparties failed to completely perform as contracted. Acceptances represent 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.

As credit commitments expire without being drawn upon, the total of the contractual amounts set out in the following table do not represent the expected future cash outflows.

	The Group	
	31 December 2017	31 December 2016
Credit card commitments	30,076,992	28,998,044
Irrevocable loan commitments		
- original contractual maturity less than 1 year	331,774	-
- original contractual maturity more than 1 year (inclusive)	22,256,831	15,381,040
<b>Sub-total</b>	<b>52,665,597</b>	<b>44,379,084</b>
Guarantees	50,732,587	38,393,413
Bank acceptances	49,439,368	66,324,220
Letters of credit	6,125,847	6,114,721
<b>Sub-total</b>	<b>106,297,802</b>	<b>110,832,354</b>
<b>Total</b>	<b>158,963,399</b>	<b>155,211,438</b>

### 2. Credit risk weighted amount

	The Group	
	31 December 2017	31 December 2016
Credit risk weighted amount of credit commitments	78,874,830	68,922,858

Credit risk weighted amount of credit commitments was calculated according to the requirements set out in the Administrative Measures on Capitals of Commercial Banks (For Trial Implementation) issued by CBRC.

## Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

### 3. Operating lease commitments

As at the end of the Relevant Periods, the Group's future minimum lease payments under non-cancellable operating leases for properties and other assets were as follows:

	The Group	
	31 December 2017	31 December 2016
Within 1 year (inclusive)	505,355	529,709
After 1 year but within 2 years (inclusive)	334,154	402,185
After 2 years but within 3 years (inclusive)	208,029	248,364
After 3 years but within 5 years (inclusive)	219,237	253,337
Above 5 years	116,391	156,242
<b>Total</b>	<b>1,383,166</b>	<b>1,589,837</b>

### 4. Capital commitments

As at the balance sheet date, the authorized capital commitment of the Group were as follows:

	31 December 2017	31 December 2016
Contracted for but not paid	590,031	352,147
Authorised but not contracted for	144,960	1,000

### 5. Underwriting and redemption commitments

(1) As at the end of the Relevant Periods, there were no unexpired commitments for underwriting bonds of the Group (31 December 2016: Nil).

(2) As an underwriting agent of PRC government bonds, the Group has the responsibility to buy back those bonds it previously sold should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interests payable to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded in the markets at the redemption date. The redemption commitments below represent the coupon value of PRC government bonds underwritten and sold by the Group and the Bank but not yet matured at the end of the Relevant Periods:

	31 December 2017	31 December 2016
Redemption commitments	6,828,324	5,921,028

### 6. Unresolved litigations and disputes

As at 31 December 2017, the total related amount of litigations and disputes whereby the Group acted as defendants was RMB37 million (31 December 2016: RMB615 million). According to the opinion of the Group's lawyers and external lawyers, the Group recognised the related litigation provision (see Note V. 27), which they believed to be reasonable and sufficient.

As at 31 December 2017, there were a number of legal proceedings outstanding against the Group (including the cases in which the Group act as the plaintiff). The Group recognised the related litigation provision for predictable events.

## IX. Entrusted lending business

The Group provides entrusted lending business services to government agencies, corporations and individuals. All entrusted loans are funded by entrusted funds from these entities and individuals. The Group does not take any credit risk in relation to these transactions. The Group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. The entrust assets are not assets of the Group and are not recognised in the balance sheets. The relevant surplus funding is accounted for as deposits from customers.

	The Group	
	31 December 2017	31 December 2016
Entrusted loans	273,992,116	253,566,192
Entrusted funds	273,992,116	253,566,192

## X. Pledged assets

### 1. Assets pledged as security

The secured liabilities related to assets pledged as security are presented as borrowings from central bank, financial assets sold under repurchase agreements, deposits from customers and financial liabilities at fair value through profit or loss at the end of the relevant periods.

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Borrowings from central bank	81,500,000	110,500,000	81,500,000	110,500,000
Financial assets sold under repurchase agreements	78,573,169	91,351,541	78,359,419	91,137,791
Deposits from customers	23,218,000	20,635,000	23,218,000	20,635,000
Financial liabilities at fair value through profit or loss	-	307,656	-	307,656
<b>Total</b>	<b>183,291,169</b>	<b>222,794,197</b>	<b>183,077,419</b>	<b>222,580,447</b>

In addition, at 31 December 2017, the Group didn't provide pledged assets for bonds which were held from debt securities lending transactions and the fair value of the relevant bonds (31 December 2016: RMB515 million).

Transactions above are conducted under customary terms of relevant businesses.

#### (1) Carrying value of pledged assets analysed by asset type

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Securities				
- Government bonds	153,843,765	195,379,861	153,843,765	195,379,861
- Bank and other financial institution bonds	15,650,726	3,790,000	15,650,726	3,790,000
- Corporate bonds	-	500,000	-	500,000
<b>Sub-total</b>	<b>169,494,491</b>	<b>199,669,861</b>	<b>169,494,491</b>	<b>199,669,861</b>
Commercial bills	32,733,656	44,762,519	32,733,656	44,762,519
Asset management plans	527,250	381,330	-	-
<b>Total</b>	<b>202,755,397</b>	<b>244,813,710</b>	<b>202,228,147</b>	<b>244,432,380</b>

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

## (2) Carrying value of pledged assets analysed by statement of financial position classification

	The Group		The Bank	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Financial assets at fair value through profit or loss	-	6,420,288	-	6,420,288
Loans and advances to customers	32,733,656	44,762,519	32,733,656	44,762,519
Available-for-sale financial assets	527,250	16,531,330	-	16,150,000
Held-to-maturity investments	162,384,567	163,309,573	162,384,567	163,309,573
Investment securities classified as receivables	7,109,924	13,790,000	7,109,924	13,790,000
<b>Total</b>	<b>202,755,397</b>	<b>244,813,710</b>	<b>202,228,147</b>	<b>244,432,380</b>

## 2. Collaterals accepted as securities for assets

The Group conducts resale agreements and bonds lending under customary terms of placements, and holds collaterals for these transactions. As at the end of each of the Relevant Periods, the Group did not hold any resale agreement or bonds lending that collaterals were permitted to sell or re-pledge in the absence of the counterparty's default on the agreements.

## XI. Related parties and transactions

### 1. The change of proportion of shares of the Group held by the shareholders during the relevant periods

Company name	Proportion of the Bank held by the company	
	31 December 2017	31 December 2016
Shanghai Lianhe Investment Co., Ltd. ("Lianhe Investment")	13.30%	13.30%
Santander Central Hispano S.A. ("Santander")	6.48%	6.48%
Shanghai International Port (Group) Co., Ltd. ("SIPG")	6.48%	6.48%

### 2. Major shareholders of the Group

Company name	Legal representative	Place of registration	Registered capital as at 31 December 2017
Lianhe Investment	Qin Jian	Shanghai	RMB3.5 billion
Santander	Ana Botin	Santander	EUR8.1 billion
SIPG	Chen Xuyuan	Shanghai	RMB2.32billion

The details of the main business are as follows:

Lianhe Investment: Mainly engaged in the investment business of important infrastructure construction projects, technological transformation of enterprises, high-tech, financial services, agriculture, real estate and other industrial development projects, consulting agency, agent sales agency, information research and talent training.

Santander: Mainly engaged in public retail loans, consumer finance loans, etc.

SIPG: Mainly engaged in domestic and international cargo (including containers) loading and unloading (including barge), storage, transit and surface transport; container deconsolidation, cleaning, repairing, manufacturing and leasing; international shipping, warehousing, storage, processing, distribution and logistics information management provide international passengers with waiting vessels and ship facilities and services; ship diversion, towing, shipping agents, freight forwarders; ship port services such as supply of fuel materials, supplies of living goods; port facilities lease; port information, technical consulting services, port terminal construction, management and operation; port lifting equipment, handling machinery, mechanical and electrical equipment and accessories wholesale and import and export.

## 3. Transactions with related parties

The Group's material transactions and balances with its related parties are summarised as follows:

	Lianhe Investment and its subsidiaries	Santander and its subsidiaries	SIPG and its subsidiaries	Entities where key management are employed (Note i) (excluding the above shareholders)	Other related parties	Total	Ratio to similar transactions
<b>Transactions with related parties during the year ended 31 December 2017:</b>							
Interest income	-	2,321	24,533	366,259	-	393,113	0.65%
Interest expense	(18,238)	(2,373)	(17,864)	(309,696)	(8,168)	(356,339)	0.87%
Fee and commission income	2	-	29	2,507	7	2,545	0.04%
Net investment gains / (losses)	-	-	-	4,000	(4,292)	(292)	0.00%
Net losses from changes in fair value	-	-	(7,855)	(473)	-	(8,328)	0.15%
Other operating income	-	-	-	7,195	-	7,195	6.48%
Non-operating income	-	-	-	1,628	-	1,628	1.33%
Other comprehensive income, net of tax	-	-	-	44,573	-	44,573	4.22%
<b>Balances with related parties as at 31 December 2017:</b>							
Deposit with banks and other financial institutions	-	2,763	-	1,424,355	-	1,427,118	1.05%
Placements with banks and other financial institutions	-	627,856	-	1,518,770	-	2,146,626	2.21%
Financial assets at fair value through profit or loss	-	-	1,402,650	295,048	-	1,697,698	14.69%
Derivative financial assets	-	-	-	15,310	-	15,310	1.82%
Interests receivable	-	3,974	1,150	19,041	-	24,165	0.31%
Loans and advances to customers (Note (ii))	-	-	660,000	1,792,296	-	2,452,296	0.38%
Available-for-sale financial assets	-	-	-	13,047,486	-	13,047,486	3.10%
Held-to-maturity investments	-	-	-	195,516	-	195,516	0.07%
Long-term equity investments	-	-	-	-	395,131	395,131	100.00%
Other assets	-	-	-	4,252	226,455	230,707	1.93%
Deposits from banks and other financial institutions	-	(95)	-	(15,082,712)	(524,319)	(15,607,126)	4.75%
Placements from banks and other financial institutions	-	(412,993)	-	(17,575)	-	(430,568)	0.83%
Derivative financial liabilities	-	-	-	(15,038)	-	(15,038)	1.11%
Deposits from customers	(1,525,050)	-	(4,862,921)	(4,799,560)	(148,865)	(11,336,396)	1.23%
Interests payable	(25,570)	(2,128)	(22,368)	(108,115)	(1,095)	(159,276)	0.96%
<b>Significant off-balance sheet items with related parties as at 31 December 2017:</b>							
Loan commitments	-	-	151,080	187,309	-	338,389	1.50%
Guarantees	-	-	800	-	-	800	0.00%
Letters of credit	-	-	-	2,305	-	2,305	0.04%
Loans guaranteed by related parties	574,474	-	160,000	722,055	-	1,456,529	0.29%
Entrusted loans	-	-	9,340,000	1,865,948	-	11,205,948	4.09%
Entrusted funds	747,966	-	5,310,000	5,892,500	-	11,950,466	4.36%



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	Lianhe Investment and its subsidiaries	Santander and its subsidiaries	SIPG and its subsidiaries	Entities where key management are employed (Note i) (excluding the above shareholders)	Other related parties	Total	Ratio to similar transactions
<b>Transactions with related parties during the year ended 31 December 2016:</b>							
Interest income	-	28,666	-	130,602	381	159,649	0.26%
Interest expense	(7,341)	(71,157)	(13,281)	(243,482)	(1,500)	(336,761)	0.97%
Fee and commission income	2	-	36	616	1	655	0.01%
Net investment gains / (losses)	-	-	-	31,814	(1)	31,813	1.93%
Net gains from changes in fair value	-	-	-	11,175	-	11,175	0.53%
Other operating income	-	-	-	141	-	141	0.15%
Other comprehensive income, net of tax	-	-	-	(20,132)	-	(20,132)	1.44%
<b>Balances with related parties as at 31 December 2016:</b>							
Deposit with banks and other financial institutions	-	5,104	-	946,674	-	951,778	5.31%
Placements with banks and other financial institutions	-	387,349	-	2,095,591	-	2,482,940	2.54%
Financial assets at fair value through profit or loss	-	-	-	291,336	-	291,336	4.08%
Derivative financial assets	-	-	-	14,783	-	14,783	1.09%
Interests receivable	-	1,530	-	41,307	16	42,853	0.58%
Loans and advances to customers (Note (ii))	-	-	-	2,528,356	15,519	2,543,875	0.47%
Available-for-sale financial assets	-	-	-	1,077,669	-	1,077,669	0.25%
Long-term equity investments	-	-	-	-	18,423	18,423	100.00%
Deposits from banks and other financial institutions	-	(200,665)	-	(18,022,455)	-	(18,223,120)	6.46%
Placements from banks and other financial institutions	-	(734,839)	-	(1,307,148)	-	(2,041,987)	4.14%
Derivative financial liabilities	-	-	-	(4,806)	-	(4,806)	0.32%
Deposits from customers	(1,019,541)	-	(1,844,628)	(6,282,825)	(208,316)	(9,355,310)	1.10%
Interests payable	(774)	(1,127)	(7,434)	(67,393)	(518)	(77,246)	0.49%
<b>Significant off-balance sheet items with related parties as at 31 December 2016:</b>							
Loan commitments	-	-	-	622,846	-	622,846	4.05%
Guarantees	-	-	800	100	-	900	0.01%
Letters of credit	-	-	-	130,616	-	130,616	2.14%
loans guaranteed by related parties	698,362	-	-	765,000	1,505	1,464,867	0.34%
Entrusted loans	-	-	4,458,000	6,568,500	542	11,027,042	4.35%
Entrusted funds	1,284,300	-	4,258,000	6,228,500	-	11,770,800	4.64%

(i) Entities where key management are employed include those controlled or jointly controlled by key management and their close family members, or those where key management act as directors or executives.

(ii) As at 31 December 2017, there was no individually assessed provision for impairment losses for the above loans and advances to related parties (31 December 2016: Nil).

The Group's transactions with related parties are conducted in accordance with normal commercial terms and normal business procedures, and its pricing principles are consistent with those of independent third parties.

## 4. Key management personnel

The remuneration of key management personnel during the Relevant Periods were as follows:

	The Group	
	2017	2016
Remuneration of key management personnel	10,796	14,681

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors, Supervisors and Senior Management. According to China's laws and regulations, no provision was made for the bonus for these key management personnel in 2017, but the bonus that has not been made provision is not expected to have a significant impact on the financial statements of the Group and the Bank in 2017.

## 5. Transactions between the Bank and its subsidiaries

Significant transactions with subsidiaries:

	2017	2016
Interest income	30,099	9,113
Interest expense	(12,818)	(8,146)
Fee and commission income	2,125	1,469
Other operating income	669	334

Significant balances outstanding as at the balance sheet date:

	2017	2016
Deposits with banks and other financial institutions	50,000	50,000
Placements with banks and other financial institutions	1,838,051	2,201,157
Interests receivable	3,201	6,829
Other Assets	696	1,442
Deposits from banks and other financial institutions	(412,920)	(410,019)
Placements from banks and other financial institutions	-	(672,150)
Deposits from customers	(16,673)	-
Interests payable	(632)	(1,431)
Guarantees	3,298,733	4,367,670

All the intra-group transactions and intra-group balances are eliminated when preparing the consolidated financial statements.

## 6. Transactions with the annuity plan

Apart from the obligations for defined contributions to the Annuity Fund, no other transactions were conducted between the Group and the Annuity Fund during the Relevant Periods.

## XII. Segment reporting

The Group manages its business by business lines and geographical areas. The Group has presented segments reporting in a manner 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 business operating segments:

### Corporate banking

The corporate banking segment provides financial products and services to corporations, government agencies and financial institutions. The range of products and services includes corporate loans, trade financing, deposit products, agency services, wealth management services, financial consulting and advisory services, remittance and settlement services, custody and guarantee services, etc.

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

## Retail banking

The retail banking segment provides financial products and services to individual customers. The range of products and services includes personal loans, deposit products, personal wealth management services, remittance services, securities agency and credit card services, etc.

## Treasury business

This segment covers inter-bank placement and taking transactions, repurchase transactions, investment in debt instruments, derivatives, foreign currency trading and equity investments. It also covers the Group's overall liquidity position management, including the issuance of debts securities.

## Others

This segment represents other miscellaneous activities, none of which constitutes a separately reportable segment.

Measurement of segment assets and liabilities and segment income and expenses 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 "inter-segment 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, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process. Segment capital expenditure is the total cost incurred during the Relevant Periods to acquire fixed assets, intangible assets and other long-term assets.

## 1. Segment results, assets and liabilities

	The Group				
	2017				
	Corporate Banking	Retail Banking	Treasury Business	Others	Segment Total
External net interest income / (expense)	11,317,140	2,336,072	5,472,012	(7,915)	19,117,309
Inter-segment net interest income / (expense)	1,976,791	2,041,875	(4,018,666)	-	-
<b>Net interest income / (expense)</b>	<b>13,293,931</b>	<b>4,377,947</b>	<b>1,453,346</b>	<b>(7,915)</b>	<b>19,117,309</b>
Fee and commission income	3,532,583	2,179,276	856,169	217,530	6,785,558
Fee and commission expense	(204,221)	(237,667)	(87,884)	-	(529,772)
<b>Net fee and commission income</b>	<b>3,328,362</b>	<b>1,941,609</b>	<b>768,285</b>	<b>217,530</b>	<b>6,255,786</b>
Net investment gains	-	-	9,617,598	18,925	9,636,523
Net (losses) / gains from changes in fair value	-	-	(5,579,918)	10,006	(5,569,912)
Net foreign exchange gains	321,539	27,877	3,185,773	-	3,535,189
Other operating income	9,798	-	-	101,292	111,090
Gains from asset disposals	613	-	-	9,292	9,905
Other income	-	-	-	29,105	29,105
<b>Operating income</b>	<b>16,954,243</b>	<b>6,347,433</b>	<b>9,445,084</b>	<b>378,235</b>	<b>33,124,995</b>
Tax and surcharges	(217,217)	(98,817)	(25,561)	(2,084)	(343,679)
General and administrative expenses	(4,435,500)	(2,877,574)	(703,656)	(88,628)	(8,105,358)
Impairment losses	(5,684,080)	(472,266)	(2,477,370)	(37,599)	(8,671,315)
Other operating expenses	(18,913)	-	-	(7)	(18,920)
<b>Operating expenses</b>	<b>(10,355,710)</b>	<b>(3,448,657)</b>	<b>(3,206,587)</b>	<b>(128,318)</b>	<b>(17,139,272)</b>
Operating profit	6,598,533	2,898,776	6,238,497	249,917	15,985,723
Add: Non-operating income	10,845	78,220	-	33,662	122,727
Less: Non-operating expenses	(5,423)	(926)	-	(19,639)	(25,988)
<b>Profit before tax</b>	<b>6,603,955</b>	<b>2,976,070</b>	<b>6,238,497</b>	<b>263,940</b>	<b>16,082,462</b>
<b>Segment assets</b>	<b>532,042,805</b>	<b>177,299,767</b>	<b>1,096,856,061</b>	<b>1,568,305</b>	<b>1,807,766,938</b>

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

	The Group				
	2017				
	Corporate Banking	Retail Banking	Treasury Business	Others	Segment Total
Segment liabilities	726,258,230	213,027,099	720,634,157	406,049	1,660,325,535
Other segment information					
Credit commitments	128,886,407	30,076,992	-	-	158,963,399
Depreciation and amortisation	(350,980)	(278,924)	(34,573)	(3,344)	(667,821)
Capital expenditure	(274,375)	(218,046)	(27,027)	(2,614)	(522,062)

	The Group				
	2016				
	Corporate Banking	Retail Banking	Treasury Business	Others	Segment Total
External net interest income / (expense)	11,116,890	273,740	14,608,376	(897)	25,998,109
Inter-segment net interest income / (expense)	2,779,715	2,994,465	(5,774,180)	-	-
<b>Net interest income / (expense)</b>	<b>13,896,605</b>	<b>3,268,205</b>	<b>8,834,196</b>	<b>(897)</b>	<b>25,998,109</b>
Fee and commission income	3,754,065	1,699,985	676,363	353,896	6,484,309
Fee and commission expense	(118,592)	(112,470)	(96,403)	-	(327,465)
<b>Net fee and commission income</b>	<b>3,635,473</b>	<b>1,587,515</b>	<b>579,960</b>	<b>353,896</b>	<b>6,156,844</b>
Net investment gains	-	-	1,562,039	86,461	1,648,500
Gains from changes in fair value	-	-	2,116,455	2,620	2,119,075
Net foreign exchange gains / (losses)	171,502	31,113	(1,812,130)	-	(1,609,515)
Other operating income	9,955	-	-	85,845	95,800
Losses from asset disposals	-	-	-	(5,296)	(5,296)
<b>Operating income</b>	<b>17,713,535</b>	<b>4,886,833</b>	<b>11,280,520</b>	<b>522,629</b>	<b>34,403,517</b>
Tax and surcharges	(366,291)	(102,267)	(236,912)	(9,179)	(714,649)
General and administrative expenses	(4,627,281)	(2,394,135)	(686,737)	(167,758)	(7,875,911)
Impairment losses	(5,727,164)	(401,427)	(3,434,058)	(13,695)	(9,576,344)
Other operating expenses	(23,768)	-	(4,826)	(110)	(28,704)
<b>Operating expenses</b>	<b>(10,744,504)</b>	<b>(2,897,829)</b>	<b>(4,362,533)</b>	<b>(190,742)</b>	<b>(18,195,608)</b>
Operating profit	6,969,031	1,989,004	6,917,987	331,887	16,207,909
Add: Non-operating income	47,909	60,403	-	72,978	181,290
Less: Non-operating expenses	(13,518)	(427)	-	(55,881)	(69,826)
<b>Profit before tax</b>	<b>7,003,422</b>	<b>2,048,980</b>	<b>6,917,987</b>	<b>348,984</b>	<b>16,319,373</b>
<b>Segment assets</b>	<b>461,373,136</b>	<b>122,157,247</b>	<b>1,170,622,828</b>	<b>1,217,891</b>	<b>1,755,371,102</b>
<b>Segment liabilities</b>	<b>654,929,695</b>	<b>213,501,563</b>	<b>770,269,951</b>	<b>451,279</b>	<b>1,639,152,488</b>
Other segment information					
Credit commitments	126,213,394	28,998,044	-	-	155,211,438
Depreciation and amortisation	(415,222)	(224,221)	(110,279)	(1,888)	(751,610)
Capital expenditure	(566,506)	(305,915)	(150,459)	(2,576)	(1,025,456)

## 2. Geographical information

The Group operates principally in mainland China. Besides the Head Office, branches and sub-branches in Shanghai, it has set up branches and sub-branches in Ningbo, Nanjing, Hangzhou, Tianjin, Chengdu, Shenzhen, Beijing and Suzhou. The Group also established subsidiaries in Shanghai, Zhejiang Province, Jiangsu Province and Sichuan Province respectively. The Group has established subsidiaries outside mainland.

## Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

When presenting geographical information, operating income is allocated based on the locations of the branches which generate income. Total assets are allocated based on geographical location of the underlying assets.

Geographical areas, as defined for management reporting purposes, are as follows:

- "Shanghai" region refers to the Head Office, branches and sub-branches in Shanghai, and Minhang Rural, Asset Management, BOSC Ruijin, Shangkong Yinchuang, and Junlian Investment;
- "Yangtze River Delta (excluding Shanghai)" refers to the area serviced by the following branches and subsidiaries of the Bank: Ningbo, Nanjing, Hangzhou, Suzhou, Qujiang Rural and Jiangning Rural;
- "Pearl River Delta (including Hong Kong)" refers to the area serviced by the following branches of the Bank: Shenzhen, BOSC Hong Kong, BOSC International, BOSC International Financing Co., Ltd., BOSC International Securities Co., Ltd., BOSC International Asset Management Co., Ltd., BOSC International Investment Co., Ltd., BOSC International (Shenzhen) Co., Ltd., BOSC International Advisory (Shenzhen) Co., Ltd., BOSC International Equity Investment Fund Management (Shenzhen) Co., Ltd. and BOSC International Investment (Shenzhen) Co., Ltd.;
- "Bohai Rim" refers to the area serviced by the following branches of the Bank: Beijing and Tianjin;
- "Central and Western" refers to the area serviced by the following branches and subsidiaries of the Bank: Chengdu and Chongzhou Rural;
- "Outside mainland" (excluding Hong Kong) refers to the area serviced by the following subsidiaries: BOSC International (BVI) Limited and BOSC International Investment (BVI) Limited.

Since the structure of the Group's internal assets and liabilities was changed along with the change in the structure of assets and liabilities in each segment, the Group has restated the comparative figure for the purpose of comparison.

	The Group	
	2017	2016
<b>Operating Income</b>		
Shanghai	22,558,187	22,975,398
Yangtze River Delta (excluding Shanghai)	4,216,996	5,352,754
Pearl River Delta (including Hong Kong)	3,365,683	3,084,492
Bohai Rim	2,367,977	2,112,325
Central and Western	616,152	878,548
<b>Total</b>	<b>33,124,995</b>	<b>34,403,517</b>
<b>Profit before income tax</b>		
Shanghai	10,151,422	11,339,182
Yangtze River Delta (excluding Shanghai)	3,075,780	1,473,052
Pearl River Delta (including Hong Kong)	2,114,877	2,067,510
Bohai Rim	990,198	1,216,670
Central and Western	(249,815)	222,959
<b>Total</b>	<b>16,082,462</b>	<b>16,319,373</b>
<b>Total Assets</b>		
Shanghai	1,306,189,597	1,273,385,174
Yangtze River Delta (excluding Shanghai)	229,343,115	289,245,261
Pearl River Delta (including Hong Kong)	181,306,256	155,718,085
Bohai Rim	173,791,039	155,083,917
Central and Western	30,606,402	41,375,242
Outside PRC mainland (excluding Hong Kong)	1	-
Elimination	(113,469,472)	(159,436,577)
<b>Total</b>	<b>1,807,766,938</b>	<b>1,755,371,102</b>

	The Group	
	2017	2016
<b>Total liabilities</b>		
Shanghai	1,169,542,665	1,169,859,759
Yangtze River Delta (excluding Shanghai)	221,549,698	280,210,192
Pearl River Delta (including Hong Kong)	174,775,638	149,255,337
Bohai Rim	173,701,182	155,114,292
Central and Western	30,355,101	40,278,761
Elimination	(109,598,749)	(155,565,853)
<b>Total</b>	<b>1,660,325,535</b>	<b>1,639,152,488</b>
<b>Credit commitment</b>		
Shanghai	76,145,625	69,871,206
Yangtze River Delta (excluding Shanghai)	25,226,715	35,049,140
Pearl River Delta (including Hong Kong)	23,296,930	19,750,347
Bohai Rim	29,650,857	25,749,551
Central and Western	4,643,272	4,791,194
<b>Total</b>	<b>158,963,399</b>	<b>155,211,438</b>

### XIII. Risk management

The Group mainly has exposure to the following risks from financial instruments:

- credit risk
- market risk
- liquidity risk
- operational risk

This note presents information about the Group's exposure to each of the above risks and its changes during the year, as well as the Group's objectives, policies and processes for measuring and managing risks, and the Group's capital management.

#### Risk management framework

The Board is ultimately responsible for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Management Committee, which is primarily responsible for reviewing the risk strategies and risk management policies, evaluating risk management, internal control structure and system effectiveness, supervising the implementation of senior management in risk management, urging the senior management to take the necessary measures to identify, measure, monitor and control the risks, and recommend to the board.

To identify, evaluate, monitor, control and report the risks, the Group has designed a comprehensive risk management framework and procedures. The Vice President in charge of risk management is responsible for overall risk management. The Group's risk management policies and systems are regularly reviewed and revised to reflect changes in market conditions, products and services.

The Group defined the "three lines of defense" management system and established organizational structure of risk management and the implementation of a comprehensive risk management. The senior management, along with the Risk Management Committee, Asset and Liability Management Committee, Information Technology Management Committee and accountability Commission and other committees are responsible for management, coordination, review, decision-making and supervision of main risks, including credit risk, market risk, liquidity risk, operational risk and information technology risk. The group formed the risk management framework which include "first line of defense" for direct management, "second lines of defense" for remanagement and "the third line of defense" for resupervision.

The group set up credit department under corporate business department of head office and every branch and risk management team or post in corporate business department, small business financial services center, retail business department, credit card center, financial market department and other relevant departments. The team or post will keep separate and independent of business marketing team, carrying out all kinds of risk management responsibilities directly in the process of all kinds of business

performance. They take responsibility of risk identification, assessment, monitoring, controlling and reporting to forward risk pass, establish unified risk system whose power according with the responsibility and the first line of risk management.

Risk management department, credit department, audit department of credit management and legal compliance department under the group head office and branches set up the "the second line" for risk management and it strengthens management functions based on direct management of "the first line". The above departments promote the construction of a comprehensive risk management system, formulate the overall policies, procedures and standards and ensure consistency and effectiveness of risk management under the authorization of senior management. It also takes responsibility to review and remanage credit business approved by "the first line" in the terms of policies and procedures for compliance, business focus and prudential credit plan, measure the quality of assets and risk status really, objectively, timely and accurately; provide independent assessment, supervision, restriction and supplement for management effectiveness of "the first line".

The audit department under group head office and branches as "the third line" of risk management, is in charge of strengthening resupervision function of the "first line" and "second line" and check up, supervise and evaluate the validity of risk management.

### 1. Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group. It arises primarily from the Group's credit businesses and treasury businesses such as investment in debt securities.

#### Credit business

To identify, assess, monitor and manage credit risk, the Group has established a reporting structure, credit policies and procedures catering for effective credit risk management and implemented systematic control procedures. The Group continues to optimise its credit approval process, reinforce its credit risk management through its processes, and clarify functions and responsibilities of the credit approval cycle. The Vice President in charge of risk management and the Chief Risk Officer are responsible for all operations regarding the Group's risk management, and leading the relevant departments to formulate the credit policies, management framework and the Group's marketing strategies from time to time, analysing the development of lending businesses and the level of risk management, and approving loans within the authorised limit in accordance with relevant rules, regulations and monetary policies in the PRC and the Group's business strategy.

Customer relationship managers from the relevant business departments will conduct an independent and prudent pre-disbursement investigation on the application for the loan submitted by customers. Pre-loan investigations mainly involve collecting customer information, reviewing credit application materials and preparing a credit investigation report by customer relationship managers.

The loan reviewers of the Group conduct the review primarily on the basis of the investigation report submitted by the customer relationship managers, as well as the knowledge they obtained through indirect channels about the customers, their upstream and downstream enterprise and related industries. After the loan reviewers conduct a thorough examination, they may issue a review report which includes an evaluation of the credit risk involved in the application.

According to authorised credit approval limit, credit applications shall be approved by authorised officers or loan approval committees as appropriate. These authorised officers and members of loan approval committees are specialists from the Corporate Banking Department, the Retail Banking Department and other relevant business departments. These specialists are independent of the customer relationship managers involved in the loan investigations.

In general, the credit applications which are approved by the relevant business departments are subject to re-affirmation by the Credit Review Department. The Credit Review Department reviews the procedural compliance and key risk analysis of each credit approval report in order to reach a decision on whether or not to re-affirm such credit approval.

For loans secured with collateral, the Group conducts collateral appraisals prior to the loan approval and monitors any subsequent changes in the fair value. With respect to a third-party guarantor, the Group assess the guarantor's financial situation, credit history and ability to meet its obligations in order to determine the appropriate guarantee amount. To mitigate risks, where appropriate, the Group may require customers to provide collateral and guarantees.

Before signing credit agreement, the loan disbursement officer of the Group shall review the credit agreement, the status of compliance of pre-conditions for credit and loan disbursement, the collateral arrangement and other loan disbursement procedures. The loan disbursement officers are independent from customer relationship managers who are preparing credit investigation report and authorised officers for credit approval procedures.

The Group employs a variety of methods for conducting post-disbursement monitoring. By conducting scheduled or non-scheduled on-site or off-site inspections, the Group monitors the corporate customers' business operations and financial situation, individual customers' income status, the collateral and the guarantor, and promptly issues risk warnings.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. In compliance with relevant requirements of the CBRC, the Group conducts credit risk grade review on a monthly basis. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans. In general, loans are impaired when one or more events demonstrate that there is objective evidence that losses will be incurred. The allowances for impairment loss on impaired loans and advances are assessed collectively or individually as appropriate.

The core definitions of the five-tier grading of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

## Treasury business

The Group's treasury operations involve investments in PRC government bonds, other government bonds, financial institution bonds, corporate bonds, inter-bank money market transactions and bank notes transfer discount, etc. The credit risk management for treasury operations is primarily conducted by the Financial Markets Department in accordance with the credit risk management policies, procedures and systems.

The Group conducts credit risk management in respect of the treasury operations primarily through the management of credit limits for counterparties. The Group assigns a total credit limit for domestic and foreign financial institutions and sets sub-limits for various business lines. In addition, the Financial Markets Department works closely with credit management department, risk management department and other departments to form an integrated risk monitoring system for treasury operations.

### (1) Maximum exposure

The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the Relevant Periods, including derivative financial instruments. The maximum exposure to credit risk in respect of these off-balance sheet items as at the balance sheet date is disclosed in Note VIII.

### (2) Financial assets analysed by credit quality are summarised as follows

	The Group				
	As at 31 December 2017				
	Deposits /placements with banks and other financial institutions	Financial assets held under resale agreements	Loans and advances	Investments	Others
<b>Impaired</b>					
Individually assessed gross amount	-	-	6,618,886	2,152,293	-
Provision for impairment losses	-	-	(4,289,640)	(2,117,994)	-
<b>Sub-total</b>	-	-	<b>2,329,246</b>	<b>34,299</b>	-
Collectively assessed gross amount	-	-	1,024,619	-	-
Provision for impairment losses	-	-	(907,440)	-	-
<b>Sub-total</b>	-	-	<b>117,179</b>	-	-
<b>Overdue but not impaired</b>					
Less than 3 months (inclusive)	-	-	1,388,178	-	-
More than 3 months but less than 6 months (inclusive)	-	-	-	-	-



# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

	The Group				
	As at 31 December 2017				
	Deposits /placements with banks and other financial institutions	Financial assets held under resale agreements	Loans and advances	Investments	Others
More than 6 months	-	-	3,800	-	-
Gross amount	-	-	1,391,978	-	-
Provision for impairment losses	-	-	(223,443)	-	-
<b>Sub-total</b>	-	-	<b>1,168,535</b>	-	-
<b>Neither overdue nor impaired gross amount</b>	<b>135,993,344</b>	<b>25,944,305</b>	<b>654,986,134</b>	<b>628,732,426</b>	<b>10,918,823</b>
Provision for impairment losses	(26,799)	(135,454)	(15,409,770)	(6,138,582)	(29,020)
<b>Sub-total</b>	<b>135,966,545</b>	<b>25,808,851</b>	<b>639,576,364</b>	<b>622,593,844</b>	<b>10,889,803</b>
<b>Total</b>	<b>135,966,545</b>	<b>25,808,851</b>	<b>643,191,324</b>	<b>622,628,143</b>	<b>10,889,803</b>

	The Group				
	As at 31 December 2016				
	Deposits /placements with banks and other financial institutions	Financial assets held under resale agreements	Loans and advances	Investments	Others
<b>Impaired</b>					
Individually assessed gross amount	-	-	5,705,481	1,250,000	-
Provision for impairment losses	-	-	(4,045,852)	(1,088,976)	-
<b>Sub-total</b>	-	-	<b>1,659,629</b>	<b>161,024</b>	-
Collectively assessed gross amount	-	-	792,572	-	-
Provision for impairment losses	-	-	(726,586)	-	-
<b>Sub-total</b>	-	-	<b>65,986</b>	-	-
<b>Overdue but not impaired</b>					
Less than 3 months (inclusive)	-	-	1,097,069	435,000	-
More than 3 months but less than 6 months (inclusive)	-	-	35,296	-	-
More than 6 months	-	-	18,036	-	-
Gross amount	-	-	1,150,401	435,000	-
Provision for impairment losses	-	-	(222,544)	(68,536)	-
<b>Sub-total</b>	-	-	<b>927,857</b>	<b>366,464</b>	-
<b>Neither overdue nor impaired gross amount</b>	<b>115,687,802</b>	<b>19,257,167</b>	<b>546,350,846</b>	<b>776,124,307</b>	<b>11,101,762</b>
Provision for impairment losses	(17,162)	-	(11,607,793)	(4,771,555)	(30,502)
<b>Sub-total</b>	<b>115,670,640</b>	<b>19,257,167</b>	<b>534,743,053</b>	<b>771,352,752</b>	<b>11,071,260</b>
<b>Total</b>	<b>115,670,640</b>	<b>19,257,167</b>	<b>537,396,525</b>	<b>771,880,240</b>	<b>11,071,260</b>

(i) Investments comprise transactional debt instruments at fair value through profit or loss, debt instruments investment of available-for-sale financial assets, held-to-maturity investments and investment securities classified as receivables.

(ii) Others comprise financial assets such as derivative financial assets, interests receivable and other receivables.

### (3) Credit ratings of receivables from inter-banks

Receivables from inter-banks include deposits and placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and other financial institutions. Receivables from inter-banks neither overdue nor impaired are rated with reference to major rating agencies recognised by the PBOC.

## Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

	The Group	
	31 December 2017	31 December 2016
<b>Neither overdue nor impaired</b>		
- grade A to AAA	75,933,676	100,968,214
- grade B to BBB	65,018	-
- unrated	85,938,955	28,410,245
<b>Sub-total</b>	<b>161,937,649</b>	<b>129,378,459</b>
Provision for impairment losses	(162,253)	(17,162)
<b>Carrying amount</b>	<b>161,775,396</b>	<b>129,361,297</b>

#### (4) Credit ratings of debt instruments

The Group adopts a credit rating approach to manage the credit risk of the debt instruments portfolio. Debt instruments are rated with reference to major rating agencies generally recognised by the PBOC. The carrying amounts of debt instruments investments analysed by the rating agency designations as at the balance sheet date are as follows:

	The Group	
	31 December 2017	31 December 2016
<b>Impaired items</b>		
- C	300,000	300,000
- Unrated	1,852,293	950,000
<b>Total of impaired items</b>	<b>2,152,293</b>	<b>1,250,000</b>
Provision for impairment losses	(2,117,994)	(1,088,976)
<b>Net amount</b>	<b>34,299</b>	<b>161,024</b>
<b>Overdue but not impaired items</b>		
- Unrated	-	435,000
<b>Total of overdue but not impaired items</b>	<b>-</b>	<b>435,000</b>
Provision for impairment losses	-	(68,536)
<b>Net amount</b>	<b>-</b>	<b>366,464</b>
<b>Neither overdue nor impaired</b>		
- AAA	170,383,700	136,692,523
- AA- to AA+	9,927,358	11,981,496
- A- to A+	8,832,178	9,811,162
- Lower than A	7,433,816	5,810,177
- Unrated	432,155,374	611,828,949
<b>Sub-total</b>	<b>628,732,426</b>	<b>776,124,307</b>
Provision for impairment losses	(6,138,582)	(4,771,555)
<b>Net amount</b>	<b>622,593,844</b>	<b>771,352,752</b>
<b>Carrying amount</b>	<b>622,628,143</b>	<b>771,880,240</b>

## 2. Market risk

Market risk is the risk of loss, in respect of the Group's on and off balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices, stock prices and other prices. The Group's market risk mainly derives from assets and liabilities operating in the market and interest rate risk and foreign exchange rate risk of its products.

The market risk management of the Group oversees the whole process of identifying, measuring, monitoring and controlling market risk. The Group established the risk management framework in accordance with the requirements of the CBRC. The Board and the Risk Management Committee are responsible for leading the management of market risk. The senior management is responsible for formulating, regularly reviewing and monitoring the policies, procedures and detailed rules of market

## Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

risk management and the overall evaluation of the Group's market risk management. The Risk Management Department is responsible for formulating the policies, the management of preference of the market risk and the limitation of the risk and monitoring and controlling the market risk independently.

The Group is primarily exposed to structural interest rate risk arising from interest generating commercial banking assets and interest bearing commercial banking liabilities. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of assets and liabilities. The Group manages this risk through measures such as the Value-at-risk analysis ("VaR"), interest rate gap analysis, sensitivity analysis, etc.

The Group's foreign exchange risks mainly comprises risks arising from foreign currency portfolios within treasury proprietary investments in debt securities and money market placements, and foreign currency risk arising from the currency mismatch of loans and advances to customers and deposits from customers. The Group's major businesses are denominated in RMB, and the foreign currency exposure is not significant. The Group manages the foreign currency risk mainly by closely monitoring the limit of the currency exposures.

The Group is also exposed to market risk from its customer driven derivatives transactions and mitigates this risk by entering into back-to-back transactions with banks and other financial institutions. The Group determined that the market risk arising from stock prices for its investment portfolios is minimal.

The Group separately monitors the market risk of its trading portfolios and non-trading portfolios. The Group identifies, measures and manages the market risk by using various risk monitoring tools including the Value-at-risk ("VaR") analysis, duration analysis, gap analysis, position analysis, sensitivity analysis, scenarios analysis and stress testing. The Group has established a market risk limits system based mainly on position indicators, interest sensitivity and stop-losses indicators, and monitors the application of these risk limits. By undergoing inspecting procedures on new products and complex businesses, the Group ensures that market risk of new businesses be identified and assessed as early as possible.

### (1) VaR analysis of trading portfolios

Trading portfolios include exchange rate, interest rate derivatives and precious metals as well as trading securities. The historical simulation model for the VaR analysis is a major tool used by the Group to measure and monitor the market risk of its trading portfolios.

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to movements in market interest rates, foreign exchange rates and other market prices over a specified time horizon and at a given level of confidence. The Group used a 99% level of confidence (therefore no more than 1% statistical probability that actual losses could be greater than the VaR estimate) and a historical simulation model to calculate the VaR of interest rates, foreign exchange rates and commodity prices of trading portfolios. The holding period is one day.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- A 1-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Within the model used there is 1 percent probability that losses could exceed the VaR;
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and
- The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The total VaR of the Group's trading portfolios during the years and as at the balance sheet date are summarised as below:

	The Group			
	As at 31 December	Average	Maximum	Minimum
2017	46,730	39,256	50,413	16,942
2016	42,126	29,611	43,135	13,663

## Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

As a supplement to VaR analysis, stressing test is performed based on the characteristics of trading transactions to simulate and estimate losses in adverse and exceptional market conditions. The Group sets stress testing limits, continuously adjusts and enhances the scenarios for stress testing by taking into account financial market fluctuations in order to capture the potential impact of market price fluctuations and volatility on the trading book, enhancing the Group's market risk management capabilities.

### (2) Interest rate risk exposure

Interest rate risk is the likelihood of a loss that may arise from adverse movements in the market interest rate. The Group predicts trends of interest rate by studying various macroeconomic indicators, and predicts future funding movements and trends within the Group by referring to the Group's funding costs, capital adequacy ratios, growth of loans and deposits and other factors, so as to assess the interest rate risk taking capacity of the Group.

The Group mainly manages interest rate risks through structuring and adjusting its asset portfolios. Asset portfolios aim at mitigating risks and improve profitability by diversification of assets.

The interest rate risk mainly represents risk arising from interest rate policy changes and the mismatch of interest-sensitive assets and liabilities. Interest rate risk management measures of the Group mainly include:

- (i) Forecast interest rate trend – the Group closely reviews the interest rate policies to identify the interest rate risks in order to justify interest rate risk limits and the adjust the risk exposure;
- (ii) Set up risk management indicators to manage investment transactions, which is followed by regular reassessment;
- (iii) Adjust investment portfolio and financing structure in response to market expectations;
- (iv) Establish RMB deposit and loan pricing authorisation system; and
- (v) Promote assets and liabilities management and internal transfer pricing system and manage interest rate risk exposure by various tools on an integrated basis.

The following tables indicate the financial assets and financial liabilities as at the end of the Relevant Periods by the expected next repricing dates or by maturity dates, depending on which is earlier:

	The Group					
	As at 31 December 2017					
	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
<b>Financial assets</b>						
Cash and deposits with central bank	2,828,064	133,235,581	-	-	-	136,063,645
Deposits and placements with banks and other financial institutions	1,260,144	59,852,539	73,878,075	975,787	-	135,966,545
Financial assets held under resale agreements	-	24,179,929	1,628,922	-	-	25,808,851
Loans and advances to customers (Note i)	-	471,531,387	125,796,278	44,637,255	1,226,404	643,191,324
Investments (Note ii)	210,575,161	121,074,901	115,627,958	255,356,483	130,568,801	833,203,304
Other financial assets	10,889,803	-	-	-	-	10,889,803
<b>Total financial assets</b>	<b>225,553,172</b>	<b>809,874,337</b>	<b>316,931,233</b>	<b>300,969,525</b>	<b>131,795,205</b>	<b>1,785,123,472</b>
<b>Financial liabilities</b>						
Borrowings from central bank	-	(22,035,000)	(59,570,000)	-	-	(81,605,000)
Deposits and placements from banks and other financial institutions	-	(280,403,378)	(100,051,979)	-	-	(380,455,357)
Financial assets sold under repurchase agreements	-	(73,857,988)	(4,715,181)	-	-	(78,573,169)
Deposits from customers	-	(614,546,199)	(202,529,843)	(106,509,282)	-	(923,585,324)
Debt securities issued	-	(145,122,253)	(7,841,175)	(2,695,184)	(12,489,466)	(168,148,078)
Other financial liabilities	(20,190,482)	-	-	(52,209)	-	(20,242,691)
<b>Total financial liabilities</b>	<b>(20,190,482)</b>	<b>(1,135,964,818)</b>	<b>(374,708,178)</b>	<b>(109,256,675)</b>	<b>(12,489,466)</b>	<b>(1,652,609,619)</b>
<b>Total</b>	<b>205,362,690</b>	<b>(326,090,481)</b>	<b>(57,776,945)</b>	<b>191,712,850</b>	<b>119,305,739</b>	<b>132,513,853</b>

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

	The Group					
	As at 31 December 2016					
	Non-interest bearing	Within 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Financial assets						
Cash and deposits with central bank	3,470,035	133,567,316	-	-	-	137,037,351
Deposits and placements with banks and other financial institutions	2,465,274	53,349,788	54,685,229	5,170,349	-	115,670,640
Financial assets held under resale agreements	-	14,755,991	2,252,832	2,248,344	-	19,257,167
Loans and advances to customers (Note i)	-	362,745,058	151,141,130	22,678,893	831,444	537,396,525
Investments (Note ii)	144,274,869	142,163,213	235,882,373	227,740,172	166,094,482	916,155,109
Other financial assets	11,071,260	-	-	-	-	11,071,260
Total financial assets	161,281,438	706,581,366	443,961,564	257,837,758	166,925,926	1,736,588,052
Financial liabilities						
Borrowings from central bank	-	(18,020,000)	(92,570,000)	-	-	(110,590,000)
Deposits and placements from banks and other financial institutions	-	(258,358,912)	(72,640,353)	(387,349)	-	(331,386,614)
Financial liabilities at fair value through profit or loss	(307,656)	-	-	-	-	(307,656)
Financial assets sold under repurchase agreements	-	(90,899,746)	(238,045)	(213,750)	-	(91,351,541)
Deposits from customers	-	(566,512,113)	(206,912,002)	(75,649,249)	-	(849,073,364)
Debt securities issued	-	(95,309,365)	(120,784,824)	(2,500,000)	(12,486,196)	(231,080,385)
Other financial liabilities	(20,286,475)	-	-	-	-	(20,286,475)
Total financial liabilities	(20,594,131)	(1,029,100,136)	(493,145,224)	(78,750,348)	(12,486,196)	(1,634,076,035)
Total	140,687,307	(322,518,770)	(49,183,660)	179,087,410	154,439,730	102,512,017

(i) For loans and advances to customers, the category "Within three months" includes overdue amounts (net of provision for impairment losses) of RMB2,315 million as at 31 December 2017 (31 December 2016: RMB2,432 million). Overdue loans are loans and advances to customers, of which the whole or part of the principal or interest was overdue for one day or more.

(ii) Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment securities classified as receivables. These investments that are mature within three month include RMB34 million overdue (net of provision for impairment losses) as at 31 December 2017 (31 December 2016: RMB527 million).

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's net interest income and equity. The following table sets forth the effect on the Group's net interest income and equity from possible and reasonable interest rate fluctuations with an assumption that all other variables held constant. The effect on net interest income refers to the effect of certain interest rate changes on the net interest income generated by financial assets and liabilities that are held at the end of the year and whose interest rate are expected to reprice within one year. The effect on the equity refers to the effect of fair value changes arising from revaluation of fixed rate available for sale financial assets held at year end on equity as a result of changes in interest rates.

	The Group	
	31 December 2017	31 December 2016
<b>Sensitivity of net interest income</b>		
<b>Change in interest rate (basis points)</b>		
+100	(1,929,359)	(2,220,292)
- 100	1,929,359	2,220,292
<b>Sensitivity of equity</b>		
<b>Change in interest rate (basis points)</b>		
+100	(506,440)	(1,103,023)
- 100	520,428	1,184,749

## Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

This sensitivity analysis is based on a static interest rate risk profile of the assets and liabilities. The analysis measures only the impact of changes in interest rates within a year, as reflected by effect on annualised net interest income and equity from the repricing of the Group's assets and liabilities within a year. The analysis is based on the following assumptions:

- (i) changes in business after balance sheet date is not taken into account, the analysis is based on the static gap at the balance sheet date;
- (ii) all assets and liabilities that reprice or are due within one year will reprice or are due at the beginning of the respective periods;
- (iii) the interest rates of deposits with central bank and demand deposits from customers remain unchanged;
- (iv) there is a parallel shift in the yield curve due to change in interest rates;
- (v) there are no other changes to the assets or liabilities portfolio; and
- (vi) impact from interest rate movement on customers' activities, market prices and off-balance sheet items are not considered.

### (3) Foreign currency risk

The Group's business transactions are mainly denominated in RMB. Some transactions involve US dollars, Euros or Japanese Yen, as well as a few other currencies. The Group's exchange rate risk comprises risk arising from foreign currency exposures originated from daily treasury businesses and loans and advances to customers, balances with financial institutions, investments and deposits from customers held by the Group which are not denominated in RMB.

The exchange rate risk of the trading book includes the risks arising from foreign currency transactions on behalf of customers and the corresponding back-to-back transactions, as well as proprietary short-term foreign currency deals. The Group manages the exchange rate risk mainly by imposing limits on the transactions and sensitivity (including the exposure limit and stop loss limit). In addition, the Group evaluates the exchange rate risk of the trading book by conducting stress testing on a quarterly basis. Retail foreign currency businesses are operated on an automated trading system and the Group can monitor the exposures from retail foreign currency business on a real time basis. The Group's operating and risk management systems are able to measure and monitor currency position created by various types of transactions. Moreover, the Group manages its exchange rate risk through spot and forward foreign exchange transactions and matching foreign currency financial assets with liabilities in the same currency, and manages its foreign currency assets and liabilities portfolio and structured position using derivative instruments (mainly foreign exchange forward or swap transactions).

The Group's exchange rate exposures at balance sheet date are as follows:

	The Group			
	As at 31 December 2017			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
<b>Financial assets</b>				
Cash and deposits with central bank	132,600,962	3,196,284	266,399	136,063,645
Deposits and placements with banks and other financial institutions	125,799,246	8,464,290	1,703,009	135,966,545
Financial assets held under resale agreements	25,808,851	-	-	25,808,851
Loans and advances to customers	577,318,773	55,514,985	10,357,566	643,191,324
Investments (Note i)	801,261,333	31,290,520	651,451	833,203,304
Other financial assets	10,356,819	476,738	56,246	10,889,803
<b>Total financial assets</b>	<b>1,673,145,984</b>	<b>98,942,817</b>	<b>13,034,671</b>	<b>1,785,123,472</b>
<b>Financial liabilities</b>				
Borrowings from central bank	(81,605,000)	-	-	(81,605,000)
Deposits and placements from banks and other financial institutions	(263,256,413)	(116,100,545)	(1,098,399)	(380,455,357)
Financial assets sold under repurchase agreements	(78,573,169)	-	-	(78,573,169)
Deposits from customers	(850,707,318)	(69,269,639)	(3,608,367)	(923,585,324)
Debt securities issued	(165,625,190)	(2,522,888)	-	(168,148,078)
Other financial liabilities	(18,570,651)	(1,622,796)	(49,244)	(20,242,691)

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

	The Group			
	As at 31 December 2017			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
<b>Total financial liabilities</b>	(1,458,337,741)	(189,515,868)	(4,756,010)	(1,652,609,619)
<b>Net position</b>	214,808,243	(90,573,051)	8,278,661	132,513,853
<b>Credit commitments</b>	125,952,995	26,514,025	6,496,379	158,963,399
<b>Net notional amount of derivative financial instruments</b>	(97,838,201)	99,983,297	(6,236,898)	(4,091,802)

	The Group			
	As at 31 December 2016			
	RMB	USD (RMB equivalent)	Others (RMB equivalent)	Total
<b>Financial assets</b>				
Cash and deposits with central bank	132,913,802	4,017,895	105,654	137,037,351
Deposits and placements with banks and other financial institutions	98,753,911	10,315,716	6,601,013	115,670,640
Financial assets held under resale agreements	19,257,167	-	-	19,257,167
Loans and advances to customers	484,217,532	46,181,483	6,997,510	537,396,525
Investments (Note i)	886,376,260	28,728,940	1,049,909	916,155,109
Other financial assets	10,490,467	515,932	64,861	11,071,260
<b>Total financial assets</b>	<b>1,632,009,139</b>	<b>89,759,966</b>	<b>14,818,947</b>	<b>1,736,588,052</b>
<b>Financial liabilities</b>				
Borrowings from central bank	(110,590,000)	-	-	(110,590,000)
Deposits and placements from banks and other financial institutions	(236,820,245)	(92,102,822)	(2,463,547)	(331,386,614)
Financial liabilities at fair value through profit or loss	(307,656)	-	-	(307,656)
Financial assets sold under repurchase agreements	(91,351,541)	-	-	(91,351,541)
Deposits from customers	(790,486,993)	(53,629,661)	(4,956,710)	(849,073,364)
Debt securities issued	(229,346,179)	(1,734,206)	-	(231,080,385)
Other financial liabilities	(19,436,788)	(819,001)	(30,686)	(20,286,475)
<b>Total financial liabilities</b>	<b>(1,478,339,402)</b>	<b>(148,285,690)</b>	<b>(7,450,943)</b>	<b>(1,634,076,035)</b>
<b>Net position</b>	<b>153,669,737</b>	<b>(58,525,724)</b>	<b>7,368,004</b>	<b>102,512,017</b>
<b>Credit commitments</b>	<b>138,816,715</b>	<b>14,887,072</b>	<b>1,507,651</b>	<b>155,211,438</b>
<b>Net notional amount of derivative financial instruments</b>	<b>(62,662,192)</b>	<b>67,284,863</b>	<b>(3,385,736)</b>	<b>1,236,935</b>

(i) Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment securities classified as receivables.

The Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net profit and equity. The following table sets forth the effect on the Group's net profit and equity from possible foreign exchange rate fluctuations with an assumption that all other variables held constant.

	The Group	
	31 December 2017	31 December 2016
<b>Sensitivity of net profit and equity</b>		
Change in foreign currency exchange rate		
Appreciation against RMB by 100 bps	13,196	13,750
Depreciation against RMB by 100 bps	(13,196)	(13,750)

The sensitivity analysis is based on the following assumptions:

- (i) changes in business after balance sheet date is not taken into account, the analysis is based on the static gap at the balance sheet date;
- (ii) the foreign currency sensitivity is the gain or loss recognised as a result of a 100-basis point fluctuation in foreign currency exchange rates against RMB on balance sheet date (middle price);
- (iii) the fluctuation of exchange rates by 100 basis points is based on the assumption of exchange rates movement over the next 12 months;
- (iv) due to the immaterial proportion of the Group's total assets and liabilities denominated in foreign currencies other than US dollars, when calculating the effect on net profit and equity, other foreign currencies are converted into US dollars for this sensitivity analysis purpose;
- (v) when calculating the foreign exchange exposures, exposures from foreign currency spot, forward and swap transactions are included;
- (vi) other variables (including interest rates) remain unchanged; and
- (vii) impact from foreign exchange rate change on customers' activities and market prices are not considered.

The above sensitivity analysis is based on the static structure of the assets and liabilities in respect of foreign exchange risk. It has not taken into account the potential efforts from the Group and the Bank to mitigate the negative effects on net profit and equity from foreign currency positions. Therefore, the estimation of the above may be different with the actual situation.

### 3. Liquidity risk

Liquidity risk is the risk that the Group fail to meet the demands associated with its payables due, new loans and reasonable financing activities, or encounter difficulties in meeting these demands with reasonable costs.

The Group adopts a top-down and hierarchical liquidity management approach. At the Head Office level, liquidity is managed by the Assets and Liabilities Management Committee, which is responsible for formulation of liquidity policies and supervision of the liquidity risk ratio on a monthly basis. The Planning and Finance Department monitors liquidity in accordance with the specified liquidity risk indicators determined by the Assets and Liabilities Management Committee on a monthly basis. The Financial Markets Department is responsible for the execution of the day-to-day liquidity management activities through appropriate assets and liabilities matching and money market transactions to ensure the liquidity of the Group. The Risk Management Department takes the overall responsibility for liquidity risk management, including formulation of risk management strategies, policies, procedures and indicators.

The major liquidity management approaches of the Group include projecting the fund inflows and outflows according to the market trend to maintain an adequate funding base for the Bank; monitoring the liquidity ratio at the Head Office level and the branch level and the structure change of cash and other interest-generating assets to meet liquidity demands; establishing multi-layer liquidity safeguarding measures; enhancing the foundation of liability business, increasing the proportion of core deposits to maintain sound financing capability; establishing the liquidity risk early warning system and business continuity plan; performing periodic liquidity stress tests to identify indicators which may lead to any liquidity risk at the earliest stage.

#### (1) Maturity analysis

The following tables provide an analysis of the financial assets and liabilities of the Group based on the remaining periods to repayment on balance sheet date:



# Notes to the financial statements ( Expressed in thousands of Renminbi, unless otherwise stated )

	The Group							
	As at 31 December 2017							
	Indefinite	Overdue / repayable on demand	Within 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Financial assets								
Cash and deposits with central bank	123,601,427	12,462,218	-	-	-	-	-	136,063,645
Deposits and placements with banks and other financial institutions	-	14,812,695	30,325,186	15,974,802	73,878,075	975,787	-	135,966,545
Financial assets held under resale agreements	-	-	23,695,961	483,968	1,628,922	-	-	25,808,851
Loans and advances to customers	-	2,314,696	85,209,140	59,224,503	200,357,951	220,560,645	75,524,389	643,191,324
Investments (Note i)	210,114,051	11,588,536	24,892,031	92,544,674	109,345,719	254,261,044	130,457,249	833,203,304
Other financial assets	-	2,714,378	1,385,088	2,087,728	3,806,643	823,541	72,425	10,889,803
Total financial assets	333,715,478	43,892,523	165,507,406	170,315,675	389,017,310	476,621,017	206,054,063	1,785,123,472
Financial liabilities								
Borrowings from central bank	-	-	(15,000,000)	(7,035,000)	(59,570,000)	-	-	(81,605,000)
Deposits and placements from banks and other financial institutions	-	(73,307,831)	(160,861,248)	(46,234,299)	(99,950,567)	-	(101,412)	(380,455,357)
Financial assets sold under repurchase agreements	-	-	(60,032,811)	(13,825,177)	(4,715,181)	-	-	(78,573,169)
Deposits from customers	-	(393,791,203)	(104,210,729)	(116,544,267)	(202,529,843)	(106,509,282)	-	(923,585,324)
Debt securities issued	-	-	(88,506,653)	(56,615,600)	(7,841,175)	(2,695,184)	(12,489,466)	(168,148,078)
Other financial liabilities	-	(2,260,581)	(4,281,096)	(3,855,336)	(7,247,335)	(2,596,047)	(2,296)	(20,242,691)
Total financial liabilities	-	(469,359,615)	(432,892,537)	(244,109,679)	(381,854,101)	(111,800,513)	(12,593,174)	(1,652,609,619)
Net position	333,715,478	(425,467,092)	(267,385,131)	(73,794,004)	7,163,209	364,820,504	193,460,889	132,513,853
Notional amount of derivative financial instruments	-	-	202,057,843	352,179,325	1,079,399,744	346,973,915	1,180,000	1,981,790,827



# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

	The Group							
	As at 31 December 2016							
	Indefinite	Overdue / repayable on demand	Within 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Total
Financial assets								
Cash and deposits with central bank	122,175,455	14,861,896	-	-	-	-	-	137,037,351
Deposits and placements with banks and other financial institutions	-	10,019,384	44,701,942	15,735,216	40,043,749	5,170,349	-	115,670,640
Financial assets held under resale agreements	-	-	11,948,500	2,807,491	2,252,832	2,248,344	-	19,257,167
Loans and advances to customers	-	2,431,655	60,552,059	60,790,929	216,762,923	134,385,133	62,473,826	537,396,525
Investments (Note i)	143,603,453	7,957,001	43,896,014	90,681,196	231,747,946	231,850,566	166,418,933	916,155,109
Other financial assets	-	2,119,848	1,410,844	1,785,057	2,191,807	1,682,646	1,881,058	11,071,260
Total financial assets	265,778,908	37,389,784	162,509,359	171,799,889	492,999,257	375,337,038	230,773,817	1,736,588,052
Financial liabilities								
Borrowings from central bank	-	-	(13,000,000)	(5,020,000)	(92,570,000)	-	-	(110,590,000)
Deposits and placements from banks and other financial institutions	-	(53,199,142)	(90,220,290)	(114,939,480)	(72,640,353)	(387,349)	-	(331,386,614)
Financial liabilities at fair value through profit and loss	-	-	-	(307,656)	-	-	-	(307,656)
Financial assets sold under repurchase agreements	-	-	(59,531,483)	(31,368,263)	(238,045)	(213,750)	-	(91,351,541)
Deposits from customers	-	(366,529,941)	(89,061,323)	(109,248,503)	(187,349,337)	(96,884,260)	-	(849,073,364)
Debt securities issued	-	-	(29,312,419)	(65,996,946)	(120,784,824)	(2,500,000)	(12,486,196)	(231,080,385)
Other financial liabilities	-	(2,850,264)	(2,474,636)	(6,562,594)	(5,881,659)	(2,517,014)	(308)	(20,286,475)
Total financial liabilities	-	(422,579,347)	(283,600,151)	(333,443,442)	(479,464,218)	(102,502,373)	(12,486,504)	(1,634,076,035)
Net position	265,778,908	(385,189,563)	(121,090,792)	(161,643,553)	13,535,039	272,834,665	218,287,313	102,512,017
Notional amount of derivative financial instruments	-	-	161,342,210	213,781,066	687,469,214	157,125,484	-	1,219,717,974

(i) Investments comprise financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investment securities classified as receivables.

# Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

## (2) Contractual undiscounted cash flow

The following tables provide an analysis of the contractual undiscounted cash flow of the financial liabilities of the Group at the end of balance sheet date. The Group's actual cash flows on these instruments may vary significantly from this analysis.

	The Group								
	As at 31 December 2017								
	Carrying amount	Gross nominal inflow / (outflow)	Indefinite	Overdue / repayment on demand	Within 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
<b>Non-derivative financial liabilities</b>									
Borrowings from central bank	(81,605,000)	(84,187,772)	-	-	(15,457,000)	(7,252,960)	(61,477,812)	-	-
Deposits and placements from banks and other financial institutions	(380,455,357)	(384,686,487)	-	(73,307,831)	(161,836,492)	(46,827,728)	(102,597,711)	-	(116,725)
Financial assets sold under repurchase agreements	(78,573,169)	(79,336,147)	-	-	(60,302,455)	(14,134,480)	(4,899,212)	-	-
Deposits from customers	(923,585,324)	(942,698,451)	-	(402,007,948)	(106,294,544)	(118,938,522)	(206,715,251)	(108,742,186)	-
Debt securities issued	(168,148,078)	(175,870,669)	-	-	(88,640,000)	(57,092,263)	(8,826,222)	(5,829,184)	(15,483,000)
Other financial liabilities	(2,312,790)	(2,312,790)	-	(2,260,581)	-	-	-	(52,209)	-
<b>Total non-derivative financial liabilities</b>	<b>(1,634,679,718)</b>	<b>(1,669,092,316)</b>	<b>-</b>	<b>(477,576,360)</b>	<b>(432,530,491)</b>	<b>(244,245,953)</b>	<b>(384,516,208)</b>	<b>(114,623,579)</b>	<b>(15,599,725)</b>
<b>Derivative financial instruments</b>									
Derivative financial instruments settled on gross basis of which									
- Total inflow		384,545,945	-	-	86,575,535	75,694,926	212,622,934	9,652,550	-
- Total outflow		(388,013,107)	-	-	(87,386,408)	(76,397,182)	(214,792,543)	(9,436,974)	-
Derivative financial instruments settled on net basis		260,468	-	-	26,090	50,268	121,521	62,408	181
<b>Total derivative financial instruments</b>		<b>(3,206,694)</b>	<b>-</b>	<b>-</b>	<b>(784,783)</b>	<b>(651,988)</b>	<b>(2,048,088)</b>	<b>277,984</b>	<b>181</b>
<b>Credit commitments</b>		<b>158,963,399</b>	<b>-</b>	<b>38,295,734</b>	<b>9,134,585</b>	<b>20,452,755</b>	<b>44,594,861</b>	<b>37,454,074</b>	<b>9,031,390</b>

	The Group								
	31 December 2016								
	Carrying amount	Gross nominal inflow / (outflow)	Indefinite	Overdue / repayment on demand	Within 1 month	Between 1 month and 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
<b>Non-derivative financial liabilities</b>									
Borrowings from central bank	(110,590,000)	(113,001,475)	-	-	(13,240,000)	(5,091,800)	(94,669,675)	-	-
Deposits and placements from banks and other financial institutions	(331,386,614)	(332,843,488)	-	(53,199,142)	(90,313,809)	(115,334,981)	(73,606,717)	(388,839)	-
Financial liabilities at fair value through profit or loss	(307,656)	(307,656)	-	(307,656)	-	-	-	-	-
Financial assets sold under repurchase agreements	(91,351,541)	(91,602,442)	-	-	(59,594,695)	(31,484,836)	(239,707)	(283,204)	-
Deposits from customers	(849,073,364)	(865,020,058)	-	(373,446,520)	(90,695,025)	(111,263,096)	(190,862,583)	(98,752,834)	-
Debt securities issued	(231,080,385)	(241,428,342)	-	-	(29,344,172)	(66,301,385)	(123,847,285)	(5,774,000)	(16,161,500)
Other financial liabilities	(2,916,827)	(2,916,827)	-	(2,850,264)	-	-	-	(66,563)	-
<b>Total non-derivative financial liabilities</b>	<b>(1,616,706,387)</b>	<b>(1,647,120,288)</b>	<b>-</b>	<b>(429,803,582)</b>	<b>(283,187,701)</b>	<b>(329,476,098)</b>	<b>(483,225,967)</b>	<b>(105,265,440)</b>	<b>(16,161,500)</b>
<b>Derivative financial instruments</b>									
Derivative financial instruments settled on gross basis of which									
- Total inflow		250,823,883	-	-	91,669,778	56,864,158	91,611,004	10,678,943	-
- Total outflow		(248,971,461)	-	-	(91,047,054)	(56,056,597)	(90,895,205)	(10,972,605)	-
Derivative financial instruments settled on net basis		221,448	-	-	16,471	45,497	107,832	51,648	-
<b>Total derivative financial instruments</b>		<b>2,073,870</b>	<b>-</b>	<b>-</b>	<b>639,195</b>	<b>853,058</b>	<b>823,631</b>	<b>(242,014)</b>	<b>-</b>
<b>Credit commitments</b>		<b>155,211,438</b>	<b>-</b>	<b>32,254,279</b>	<b>11,613,347</b>	<b>18,961,153</b>	<b>58,636,719</b>	<b>27,440,689</b>	<b>6,305,251</b>

#### 4. Operational risk

Operational risk refers to the risks resulting from inadequate or failed internal control procedures, from human or information system related factors and from external events.

The operational risk faces the Group primarily includes, among others, internal fraud, external fraud, damages to property, disruptions to operations or information technology systems and issues associated with transaction execution and settlement as well as business processes. Based on the "three lines of defense" operational risk management system, the Group uses management tools such as operational risk and control self-assessment (RCSA), key risk indicators of operational risk (KRI), and operational risk loss data collection (LDC), to identify, assess, measure, monitor, control / mitigate and report operational risks.

The Group uses flow analysis, based on the historical data and operational experience, to identify operational risks, possible areas with operational risk, possible risk factors and signals, and control important risk elements.

The Group has established a bottom-up operational risk reporting system, for timely reporting on significant operational risks with branches or departments. The operational risk reporting system can be used to collect loss data and identify loss distribution, to identify deficiencies in operational risk control, and to verify the results of RCSA and assess the quality of RCSA.

The Group also improves operational risk management by enhancing staff management. The Group provides various training to employees, including orientation training for new comers and ongoing operating compliance training for all employees, and conducts regular assessment. The Group's staff manual and internal policies involve provisions for avoiding financial losses and maintaining reputation. The Group has also developed mandatory rotation policies for certain key positions.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to each business unit. The operational risk management is supplemented by relevant guidelines formulated by the Group on the following areas:

- requirements for appropriate segregation of duties, including independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risk, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- effective risk mitigation measures, including insurance.

### XIV. Capital management

The Group's capital management includes capital adequacy ratio management, capital financing management and economic capital management. The group's capital management and distribution policies are reviewed regularly by the board.

The Group commenced the computation of its capital adequacy ratios in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" and other relevant regulations promulgated by the CBRC. The CBRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with Regulation Governing Capital of Commercial Banks (Provisional). For systemically important banks, CBRC requires minimum core tier one capital adequacy ratio, tier one capital adequacy ratio and capital adequacy ratio of 8.50%, 9.50% and 11.50%, respectively. For non-systemically important banks, CBRC requires corresponding minimum ratios of 7.50%, 8.50% and 10.50%, respectively. The Group has complied in full with all its externally imposed capital requirements at 31 December 2017 and 31 December 2016.

Capital adequacy ratio management is the core of the capital management of the Group. The capital adequacy ratio reflects the Group's operations and risk management capabilities. The Group considers its strategic development plans, business expansion plans and risk variable trends when conducting scenario analysis and stress testing and executing other measures to forecast, plan and manage its capital adequacy ratio for maintaining a solid capital base and supporting business healthy development as well as meeting regulatory requirements continuously.

The capital replenishment will mainly be drawn from accumulation within the group. And the group enhances the capital strength, broadens the channels of capital supplement, optimizes the capital structure and improve the quality of capital through the rational use of various types of capital replenishment tools.

#### Capital allocation

The Group determines the allocation of its capital to businesses or activities with the objective of maximization the return on risk-adjusted capital.

The amount of capital allocated to each business or activity is primarily determined based on regulatory requirements. However, in certain cases, regulatory requirements may not accurately address the varying degree of risks associated with different activities. In such cases, capital may be adjusted to an appropriate level to reflect the risk profiles.

The Group calculates the following core tier one capital adequacy ratio, tier one capital adequacy ratio and capital adequacy ratio in accordance with Regulation Governing Capital of Commercial Banks (Provisional) and relevant requirements promulgated by the CBRC as below:

	31 December 2017	31 December 2016
<b>Core tier one capital adequacy ratio</b>	<b>10.69%</b>	11.13%
<b>Tier one capital adequacy ratio</b>	<b>12.37%</b>	11.13%
<b>Capital adequacy ratio</b>	<b>14.33%</b>	13.17%
<b>Capital composition</b>		
Core tier one capital:		
- Paid-in capital	7,805,785	6,004,450
- Qualified portion of capital	27,833,570	30,431,980
- Surplus reserve	26,435,300	22,227,344
- General reserve	25,780,256	21,245,093
- Retained earnings	39,125,759	35,542,604
- Qualified portion of non-controlling interests	85,511	168,600
- Others (Note i)	47,296	317,752
<b>Total core tier one capital</b>	<b>127,113,477</b>	<b>115,937,823</b>
<b>Core tier one capital deduction:</b>		
- Goodwill (net of related deferred tax liabilities)	(1,579)	(1,579)
- Other intangible assets other than land use right (net of related deferred tax liability)	(314,321)	(377,793)
- Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(16,471)	(13,410)
<b>Net core tier one capital</b>	<b>126,781,106</b>	<b>115,545,041</b>
<b>Other tier one capital</b>		
- Other tier one capital instruments and related premium	19,957,170	-
- Qualified portion of non-controlling interests	11,401	10,603
<b>Net tier one capital</b>	<b>146,749,677</b>	<b>115,555,644</b>
Tier two capital:		
- Tier two capital instruments and related premium	10,000,000	11,000,000
- Qualified portion of surplus provision for loan impairment	13,186,788	10,104,722
- Qualified portion of non-controlling interests	22,803	23,835
<b>Net capital</b>	<b>169,959,268</b>	<b>136,684,201</b>
<b>Total risk-weighted assets</b>	<b>1,185,925,725</b>	<b>1,037,999,210</b>

(i) Others are the translation reserve for the Group in accordance with Administrative Measures on Capital of Commercial Banks (For Trial Implementation) issued by the CBRC.

## XV. Fair value of financial instruments

### 1. Fair value measurement

#### (1) Fair value hierarchy

The following table presents the fair value information and the fair value hierarchy, at the end of the current reporting period, of the Group's assets and liabilities which are measured at fair value at each balance sheet date on a recurring basis. As at 31 December 2017, the Group's assets and liabilities which are not measured at fair value on a recurring basis were not significant. The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement. The levels are defined as follows:

Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities;

## Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

Level 2 inputs: inputs other than Level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities;

Level 3 inputs: inputs that are unobservable for underlying assets or liabilities.

The table below analyses financial instruments, measured at fair value at the end of the balance sheet date, by the level in the fair value hierarchy into which the fair value measurement is categorised:

Recurring fair value measurement	The Group			
	As at 31 December 2017			
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Debt instruments	-	11,083,337	-	11,083,337
- Equity instruments	460,617	493	-	461,110
- Debt instruments at fair value through profit or loss	-	9,790	-	9,790
Derivative financial assets	-	839,088	-	839,088
Available-for-sale financial assets				
- Debt instruments	-	50,862,334	159,708,428	210,570,762
- Equity instruments	170,404,583	39,129,678	485,463	210,019,724
<b>Total assets measured at fair value on a recurring basis</b>	<b>170,865,200</b>	<b>101,924,720</b>	<b>160,193,891</b>	<b>432,983,811</b>
<b>Liabilities</b>				
Derivative financial liabilities	-	(1,359,342)	-	(1,359,342)
<b>Total liabilities measured at fair value on a recurring basis</b>	<b>-</b>	<b>(1,359,342)</b>	<b>-</b>	<b>(1,359,342)</b>

Recurring fair value measurement	The Group			
	As at 31 December 2016			
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	Total
<b>Assets</b>				
Financial assets at fair value through profit or loss				
- Debt instruments	-	6,473,922	-	6,473,922
- Equity instruments	605,202	66,214	-	671,416
Derivative financial assets	-	1,361,893	-	1,361,893
Available-for-sale financial assets				
- Debt instruments	-	78,160,705	210,382,027	288,542,732
- Equity instruments	95,301,727	29,146,372	19,091,027	143,539,126
<b>Total assets measured at fair value on a recurring basis</b>	<b>95,906,929</b>	<b>115,209,106</b>	<b>229,473,054</b>	<b>440,589,089</b>
<b>Liabilities</b>				
Derivative financial liabilities	-	(1,520,235)	-	(1,520,235)
Financial liabilities at fair value through profit or loss	-	(307,656)	-	(307,656)
<b>Total liabilities measured at fair value on a recurring basis</b>	<b>-</b>	<b>(1,827,891)</b>	<b>-</b>	<b>(1,827,891)</b>

## (2) Level 1 fair value measurement

If there is a reliable active market quote (such as an authorised stock exchange or active open-ended fund manager), the closing price or redemption price of the last trading day prior to the balance sheet date is used as fair value.

## (3) Level 2 fair value measurement

Debt instruments included in financial assets at fair value through profit or loss and Bonds, negotiable certificate of deposits and part of asset-backed securities included in available-for-sale financial assets are determined based on the quotes provided by the valuation system of securities clearing institutions. Observable inputs that reflect market conditions are used by quotation institutions when preparing the quotation.

Equity investment included in financial assets at fair value through profit or loss is mainly stocks. The value of stocks which doesn't have active fair value can refer to the recent market price. The measure method can adopt the valuation technique which all significant valuation parameters are observed using market information.

The fair value of foreign exchange forwards and swaps, currency interest rate swaps, interest rate swaps, and commodity forward and swap included in the derivative financial instruments is determined by discounting the expected receivable and payable of future contracts and calculating the net present value of the contracts. The discount rate used is the market rate curve of respective currency. System quotations provided by exchanges relevant markets are used for exchange rates and commodity prices. Observable inputs that reflect market conditions are used by quotation institutions when preparing the quotation.

The Black-Scholes option pricing model is used to determine the fair value of foreign exchange options. Interest rate consists with market interest rate curve for the corresponding currency; exchange rates and volatility consist with quotations of related foreign exchange trading system. Observable inputs reflecting market conditions are used by related quotation agencies to offer a quote.

Equity investments included in the available for sale financial assets are mainly assets management plans, whose fair value is determined based on the adjusted fair value of financial assets or liabilities held by relevant structured subject. When there is no current quotation for the financial assets or liabilities, their fair value should be determined based on the adjusted market quotations for recent transactions. The valuation is based on a technique for which all significant inputs are observable market data.

## (4) Level 3 fair value measurement

The Group has developed relevant procedures to determine the appropriate valuation techniques and inputs for level 3 fair value measurement on a recurring basis, and regularly reviews the appropriateness of the relevant procedures and determination of the fair value.

Quantitative information of level 3 fair value measurement is as follows:

	Fair value as at 31 December 2017	Valuation technique	Unobservable inputs	Range (weighted average)
Debt investment plan	26,771,549	Discounted cash price method	Risk-adjusted discount rate	[4.30%, 7.50%]
Wealth management product	132,936,879	Discounted cash price method	Risk-adjusted discount rate	[4.80%, 5.62%]
Unlisted available-for-sale	485,463	Comparison of listed companies	Discounted liquidity	20%
	Fair value as at 31 December 2016	Valuation technique	Unobservable inputs	Range (weighted average)
Debt investment plan	30,092,215	Discounted cash price method	Risk-adjusted discount rate	[4.30%, 7.50%]
Wealth management product	171,121,951	Discounted cashprice method	Risk-adjusted discount rate	[3.01%, 4.54%]
Asset-backed securities	468,416	Discounted cashprice method	Risk-adjusted discount rate	[3.75%, 6.35%]
Asset management plan	21,353,755	Discounted cashprice method	Risk-adjusted discount rate	[2.52%, 5.84%]
Beneficial right of bill management plan	5,930,922	Discounted cashprice method	Risk-adjusted discount rate	[2.57%, 4.00%]
Unlisted available-for-sale	505,795	Comparison of listed companies	Discounted liquidity	20%



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The group uses the valuation technique which include unobserved market data for part of debt investment plan, wealth management product, asset management plans, a beneficial right of bill management plan and asset backed securities. The valuation technique for the above assets is discounted cash price method, of which the unobservable inputs include risk-adjusted discount rate, etc.

The Group uses the price-to-book ratio of comparable listed companies to determine the fair value of the unlisted available for sale equity instruments, and makes adjustments by discounting its liquidity. The liquidity discounts in the above models are unobservable inputs.

As at 31 December 2017 and 31 December 2016, the impact of replacing existing unobservable assumptions with other reasonable assumptions on the fair value measurement result is not significant.

The above assumptions and methods provide a consistent basis for the Group to calculate the fair value of its assets and liabilities. Other entities, however, may use different assumptions and methods, and therefore the fair value disclosed by other financial institutions may not be entirely comparable.

Reconciliation of the opening and closing balance for assets of level 3 fair value on a recurring basis is as follows:

	The Group						
	2017						
	As at 1 January	Total gains or losses during the year (Note)		Additions and settlements		As at 31 December	For asset held and Liabilities assumed at end of year,unrealised gains or losses during the year recognised in profit or loss
Recognised in profit or loss		Recognised in Other comprehensive income	Additions	Settlement			
Assets							
Available-for-sale financial assets							
- Investment in debt instruments	210,382,027	3,693,241	(37,430)	138,392,378	(192,721,788)	159,708,428	72,831
- Investment in equity instruments	19,091,027	356,303	133,685	-	(19,095,552)	485,463	(83,648)
Total	229,473,054	4,049,544	96,255	138,392,378	(211,817,340)	160,193,891	(10,817)
	The Group						
	2016						
	As at 1 January	Total gains or losses during the year (Note)		Additions and settlements		As at 31 December	For asset held and Liabilities assumed at end of year,unrealised gains or losses during the year recognised in profit or loss
Recognised in profit or loss		Recognised in Other comprehensive income	Additions	Settlement			
Assets							
Available-for-sale financial assets							
- Investment in debt instruments	83,711,517	3,429,226	37,430	241,552,569	(118,348,715)	210,382,027	(579,002)
- Investment in equity instruments	1,042,746	10,225	(77,165)	18,655,601	(540,380)	19,091,027	10,225
Total	84,754,263	3,439,451	(39,735)	260,208,170	(118,889,095)	229,473,054	(568,777)

Note: Details of the above gains or losses charged to profit or loss or other comprehensive income recognised by the Group at 31 December 2017 and at 31 December 2016 are as follows:

2017		
	Item	Amount
Realised gains or losses recognised in profit or loss during the year	Interest income	3,477,853
	Investment income	582,508
<b>Total</b>		<b>4,060,361</b>
Unrealised gains or losses recognised in profit or loss during the year	Impairment losses	(10,817)
Gains or losses recognised in other comprehensive income	Gain / (loss) on changes in fair value of available-for-sale financial assets	96,225

2016		
	Item	Amount
Realised gains or losses recognised in profit or loss during the year	Interest income	4,008,228
Unrealised gains or losses recognised in profit or loss during the year	Impairment losses	(568,777)
Gains or losses recognised in other comprehensive income	Gain / (loss) on changes in fair value of available-for-sale financial assets	(39,735)

Analysis of level 3 fair value measurement items on a recurring basis and sensitivity of unobservable inputs is as follows:

The fair value of some of the group's debt investment plans, wealth management products, asset backed securities and asset management plan is determined by discounting related expected cash flow of mentioned assets through the risk adjusted discount rate. The discount rate used has been adjusted according to counterparty credit risk. There is a negative correlation between fair value measurement and risk adjusted discount rate.

The Group uses the price-to-book ratio of comparable listed companies to determine the fair value of the unlisted available for sale equity instruments, and makes adjustments by discounting its liquidity discount. Fair value measurement and liquidity are negatively correlated. As at 31 December 2017, when all other variables remain constant, an increase or decrease of 5% in liquidity discount will result in an decrease or increase of RMB27.03 million in the Group's other comprehensive income (31 December 2016: decrease or increase of RMB23.71 million).

## 2. Change of items measured at fair value between different levels

During the Relevant Periods, the Group's assets and liabilities measured at fair value have not been changed significantly between different levels.

## 3. Change of valuation techniques and the reasons

During the Relevant Periods, valuation techniques used by the Group for fair value measurement were not changed significantly.

## 4. Fair value of financial assets and liabilities not measured at fair value

In addition to the following items, there was no significant difference between the carrying amount and the fair value of the Group's other financial assets and liabilities as at 31 December 2017 and 31 December 2016.

	31 December 2017			
	Level 2	Level 3	Fair value	Carrying amount
<b>Financial assets</b>				
Held-to-maturity investment	254,348,922	-	254,348,922	264,262,868
Investment securities classified as receivables	8,532,869	127,730,446	136,263,315	136,701,386
<b>Total</b>	<b>262,881,791</b>	<b>127,730,446</b>	<b>390,612,237</b>	<b>400,964,254</b>
<b>Financial liabilities</b>				
Debt securities issued	164,265,862	2,522,889	166,788,751	168,148,078

## Notes to the financial statements (Expressed in thousands of Renminbi, unless otherwise stated)

	31 December 2016			
	Level 2	Level 3	Fair value	Carrying amount
<b>Financial assets</b>				
Held-to-maturity investment	237,952,259	-	237,952,259	236,540,182
Investment securities classified as receivables	9,224,445	230,973,893	240,198,338	240,323,404
<b>Total</b>	<b>247,176,704</b>	<b>230,973,893</b>	<b>478,150,597</b>	<b>476,863,586</b>
<b>Financial liabilities</b>				
Debt securities issued	227,012,871	1,734,206	228,747,077	231,080,385

For the above financial assets and liabilities not measured at fair value, the Group used the following methods to determine their fair value:

(1) Fair value of held-to-maturity financial assets, bond investment under investment securities classified as receivables, and financial liabilities of subordinated debt securities, tier 2 capital bonds and negotiable certificates of deposit issued is based on the quotes provided by the valuation system of securities clearing institutions. Observable inputs that reflect market conditions are used by quotation institutions when preparing the quotation. The fair value which cannot refer to quotations of relevant institutions is measured by discounted cash flow.

(2) There is no quotation for investment classified as receivables and certificate of deposit and other dollar bond included in the financial liabilities for debit securities issued except bond investment on the active market. As a result, the Group estimates the fair value of these investment classified as receivables and certificate of deposit and other dollar bond included in the financial liabilities for debit securities issued by applying the discounted cash flow method. The discount rate used is the yield curve adjusted to the credit risk of the investment classified as receivables and certificate of deposit and other dollar bond included in the financial liabilities for debit securities issued at the end of reporting period.

## XVI. Subsequent events

The board of directors approved on 20 April 2018 the profit appropriations for the year ended 31 December 2017. The proposal is subject to approval by the shareholder's general meeting.

## XVII. Comparative figures

For the purpose of the presentation of these financial statements, the Group reclassified certain comparative figures.

# Bank of Shanghai Company Limited

## Supplementary Financial Information

(Expressed in thousands of Renminbi unless otherwise stated)

### 1. Extraordinary gains and losses in 2017

Extraordinary gains and losses listed below are presented in accordance with Interpretive Pronouncement on the Preparation of Information Disclosure of Companies Issuing Public Shares No.1 – Extraordinary Gains and Losses:

	Note	2017	2016
Income from bank card overdue fee		71,318	59,512
Government grants		29,105	47,451
Net gains / (losses) from disposal of fixed assets		9,292	(5,296)
Income from the compensation of litigation and breach of contract		6,035	45,338
Income from clean up the suspense account		2,944	2,519
Net income from disposal of repossessed assets		613	-
Net losses from disposal of other assets		(87)	(10,101)
Donation expenditure		(15,206)	(44,055)
Other profit and loss		31,735	10,800
<b>Net amount of extraordinary gains and losses</b>	(1)	<b>135,749</b>	<b>106,168</b>
Tax effect	(2)	(38,473)	(29,476)
<b>Total</b>		<b>97,276</b>	<b>76,692</b>
<b>Including:</b>			
Net amount of extraordinary gains and losses affecting the net profit of the Bank's shareholder		92,990	73,052
Net amount of extraordinary gains and losses affecting the net profit of the Bank's minority shareholder		4,286	3,640

Notes:

(1) The non recurring gains and losses shall be accounted in gains / (losses) from disposal of non-current assets, other income and non-operating income or expenditure.

Gain or loss on the investment or entrusted investment, reversal of loan loss provision for individually impairment test, possession and disposal of financial assets and liabilities at fair value through profit or loss, investment gains of financial assets available for sale and custodian fee income received by the trustee are not presented as extraordinary gain and loss because the above gain and loss are generated from normal operation.

(2) According to "Regulations for the Implementation of the PRC Enterprise Income Tax Law" and relevant regulations, net loss on disposal of fixed assets, non-public welfare expenditure and damages, liquidated damages and fines included in other gains or losses cannot be deducted before paying the tax.

### 2. Earnings per share

In accordance with "Regulation on the Preparation of Information Disclosures by Companies Issuing Securities No.9 – Calculation and Disclosure of the Return on Net Assets and Earnings Per Share" (2010 revised) (The Rules for the Information Disclosure and Reporting No.9) issued by the CSRC and relevant accounting standards, the Group's earnings per share are calculated as follows:

	2017	2016
Weighted average number of ordinary shares outstanding (in thousand shares)	7,805,785	5,490,951
Weighted average number of ordinary shares outstanding after adjustment (in thousand shares)	7,805,785	7,138,236
Earnings per share before deducting extraordinary gains and losses		
- Net profit attributable to equity holders of the Bank	15,328,499	14,308,265
- Basic and diluted earnings per share attributable to equity holders of the Bank (in RMB)	1.96	2.01
Earnings per share after deducting extraordinary gains and losses		
- Net profit attributable to equity holders of the Bank after deducting extraordinary gains and losses	15,235,509	14,235,213
- Basic and diluted earnings per share attributable to equity holders of the Bank after deducting extraordinary gains and losses	1.95	1.99

## Supplementary Financial Information (Expressed in thousands of Renminbi unless otherwise stated)

Pursuant to the resolution approved by the Bank in the 2016 annual general meeting on 23 June 2017, the Bank will convert the share capital totaling at 6,004,450,000 shares into new shares on the basis of three shares for every ten existing shares to all the registered shareholders on the record of date (19 July 2017). Upon the completion of such conversion, the total share capital of the Bank was increased to 7,805,785,000 shares. According to the Rules for the Information Disclosure and Reporting No.9, the weighted average number of ordinary shares outstanding and earnings per share indicators during each comparative period were recalculated based on the number of shares after conversion.

There was no difference between basic and diluted earnings per share as there were no ordinary shares that are not dilutive during the year ended 31 December 2017 and 2016.

### 3. Return on net assets

In accordance with "The Rules for the Information Disclosure and Reporting No.9" issued by the CSRC and relevant accounting standards, the Group's return on net assets are calculated as follows:

	2017	2016
Net asset attributable to equity holders of the Bank	127,027,966	115,769,223
Weighted net asset attributable to equity holders of the Bank	121,398,595	99,720,966
Before deducting extraordinary gains and losses		
- Net profit attributable to equity holders of the Bank	15,328,499	14,308,265
- Weighted average of return on net assets	12.63%	14.35%
After deducting extraordinary gains and losses		
- Net profit attributable to equity holders of the Bank	15,235,509	14,235,213
- Weighted average of return on net assets	12.55%	14.28%

### 4. Leverage ratio

For more detailed information about leverage ratios, please refer to the column on investor relations-regulatory capital at the Bank's website: [www.bosc.cn](http://www.bosc.cn).

### 5. Regulatory capital

For more detailed information about regulatory capital, please refer to the column on investor relations-regulatory capital at the Bank's website: [www.bosc.cn](http://www.bosc.cn).



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