泸州市商业银行
LUZHOU CITY COMMERCIAL BANK

Luzhou City Commercial Bank Co., Ltd. *
泸州市商业银行股份有限公司*

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

(Stock Code: 1983)

2018 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors (the "**Board**") of Luzhou City Commercial Bank Co., Ltd. (the "**Bank**") hereby announces the audited condensed annual financial statement of the Bank for the year ended December 31, 2018 (the "**Reporting Period**"). The content of this results announcement has been prepared in accordance with applicable disclosure requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") in relation to preliminary announcements of annual results and the International Financial Reporting Standards (the "**IFRSs**") promulgated by the International Accounting Standards Board ("**IASB**"). Such annual results have also been reviewed and confirmed by the Board and the audit committee of the Board (the "**Audit Committee**"). Unless otherwise indicated, financial data of the Bank are presented in Renminbi ("**RMB**").

1. CORPORATE INFORMATION

1.1 Basic Information

Legal Chinese Name	泸州市商业银行股份有限公司
Abbreviation in Chinese	泸州市商业银行
Legal English Name	Luzhou City Commercial Bank Co., Ltd.
Abbreviation in English	LUZHOU CITY COMMERCIAL BANK
Legal Representative	YOU Jiang
Authorized Representatives	LIU Shirong, SO Shuk Yi Betty
Listing Place of H shares	The Stock Exchange of Hong Kong Limited
Stock Name	LUZHOU BANK
Stock Code	1983

1.2 Contact Persons and Contact Details

Secretary to the Board of Directors	LIU Shirong
Joint Company Secretaries	LIU Shirong, SO Shuk Yi Betty
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Principal Place of Business in Hong Kong	40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong
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2. ACCOUNTING DATA AND FINANCIAL INDICATORS SUMMARY

Unit: RMB'000

Item	2018	2017	Year-on-year change	2016	2015	2014
Operating results			**change (%)**			
Net interest income	1,772,398	1,574,335	12.58	1,155,636	885,201	527,997
Net fee and commission income	1,868	(1,890)	N/A	495	2,505	4,749
Operating income	1,934,088	1,679,956	15.13	1,306,982	942,180	689,955
Operating expenses	(686,928)	(543,168)	26.47	(437,427)	(273,227)	(183,881)
Expected credit losses/Impairment losses	(396,810)	(324,846)	22.15	(155,669)	(89,136)	(84,843)
Profit before tax	853,990	814,486	4.85	716,800	587,646	428,341
Net profit	658,307	618,703	6.40	542,084	451,475	341,439
Net profit attributable to our shareholders	658,307	618,703	6.40	542,084	451,475	341,439
Per share (RMB)			**Change**			
Net assets per share attributable to our shareholders[1]	2.92	2.65	0.27	2.77	2.53	1.77
Basic earnings per share[2]	0.40	0.38	0.02	0.35	0.52	0.47
Diluted earnings per share	0.40	0.38	0.02	0.35	0.52	0.47

Item	2018	2017	Year-on-year change	2016	2015	2014
Scale indicators (RMB'000)			**change (%)**			
Total assets	82,549,815	70,879,436	16.47	53,280,661	31,763,629	22,828,239
Of which: loans and advances to customers, net[3]	30,486,354	18,833,833	61.87	14,159,076	9,703,381	7,415,618
Total liabilities	76,183,029	66,543,721	14.49	49,273,247	28,479,524	21,547,657
Of which: deposits from customers	52,385,604	42,145,297	24.30	31,018,756	20,383,361	14,448,352
Share capital	2,182,933	1,637,193	33.33	1,448,844	1,297,619	724,422
Equity attributable to our shareholders	6,366,786	4,335,715	46.85	4,007,414	3,284,105	1,280,582
Total equity	6,366,786	4,335,715	46.85	4,007,414	3,284,105	1,280,582
Profitability indicators (%)			**Change**			
Return on average total assets[4]	0.86	1.00	(0.14)	1.27	1.65	1.80
Return on average equity[5]	14.66	14.83	(0.17)	14.87	19.68	29.59
Net interest spread[6]	2.43	2.55	(0.12)	3.19	3.57	3.09
Net interest margin[7]	2.53	2.65	(0.12)	3.24	3.76	3.23
Net fee and commission income to operating income[8]	0.10	(0.11)	0.21	0.04	0.27	0.69
Cost-to-income ratio[9]	34.54	31.89	2.65	31.46	24.27	21.61
Asset quality indicators (%)			**Change**			
NPL ratio	0.80	0.99	(0.19)	0.53	0.30	0.32
Allowance coverage ratio	319.36	294.49	24.87	486.63	920.63	813.18
Allowance to gross loan ratio	2.54	2.93	(0.39)	2.58	2.75	2.63
Capital adequacy indicators (%)			**Change**			
Core tier-one capital adequacy ratio[10]	10.69	10.40	0.29	12.68	17.53	10.91
Tier-one capital adequacy ratio[10]	10.69	10.40	0.29	12.68	17.53	10.91
Capital adequacy ratio[10]	13.29	13.69	(0.40)	13.62	18.58	12.01
Other indicators (%)			**Change**			
Liquidity ratio	73.40	48.42	24.98	44.99	57.72	28.79

Notes:

(1) Net assets per share attributable to our shareholders = (equity attributable to our shareholders – other equity instruments)/the number of ordinary shares at the end of the period.

(2) Basic earnings per share are calculated by dividing the net profit for the year/period attributable to shareholders of the Bank by the weighted average number of ordinary shares during the period.

(3) Net loans and advances to customers = total loan and advances to customers – impairment allowance on loans and advances to customers.

(4) Return on average total assets = net profit/the average balance of total assets at the beginning and the end of the period.

(5) Return on average equity = net profit attributable to our shareholders of ordinary shares/the weighted average balance of equity attributable to our shareholders of ordinary shares at the beginning and the end of the period.

(6) Net interest spread = the average yield on interest-earning assets – the average cost of interest-bearing liabilities.

(7) Net interest margin = net interest income/the average balance of interest-earning assets.

(8) Net fee and commission income to operating income = net fee and commission income/operating income.

(9) Cost-to-income ratio = (operating expenses – tax and surcharges)/operating income.

(10) The capital adequacy ratio related indicators in the above table were calculated in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法（試行）》) and other relevant regulatory requirements.

3. MANAGEMENT DISCUSSION AND ANALYSIS

3.1 Environment and Prospect

Over the forty years of reformation and opening up, China has been one of the world's fastest growing economies and has become the world's second largest economy since 2010. According to the statistics provided by National Bureau of Statistics, China's GDP maintained a middle-to-high growth from RMB59.5 trillion in 2013 to RMB90.03 trillion in 2018, representing an increase of 6.6% when compared with last year. National economic movement maintained at a reasonable range, as increasingly characterized by advancement amid stability on the whole.

Situated at the intersection of Silk Road Economic Belt and Yangtze River Economic Belt, Sichuan Province is known for its large population, abundant resources and high GDP growth. Thanks to the advantageous geographic location, favourable regulatory environment, various policy support in infrastructure construction, trade and economic development, it achieved a continued, rapid economic growth in the last few years. On April 1, 2017, the State Council approved the establishment of China (Sichuan) Pilot Free Trade Zone (中國(四川)自由貿易試驗區), which further propelled the transformation of Sichuan Province from an inland province to the forefront of opening up. At the end of 2018, the GDP of Sichuan Province exceeded RMB4 trillion for the first time, which amounted to RMB4,067.813 billion, representing an increase of 8% as compared to the previous year. The economic aggregate of the whole province came to a new height. New breakthroughs were achieved in economic structure, unleashing new impetus for economic growth. In general, the economy of Sichuan Province advanced amid stability.

Located in the southeast of the Sichuan Province, Luzhou is at the junction of Sichuan, Chongqing, Yunnan and Guizhou and the convergence of the Yangtze River and Tuojiang River. Taking into account its unique geographic location and advanced river-based transportation system, Luzhou is well-positioned to take natural advantage in its economy development. According to the Chengdu and Chongqing City Cluster Development Plan (成渝城市群發展規劃) issued by the National Development and Reform Commission, Luzhou is positioned to be a regional central city in southern Sichuan Province. In 2017, Luzhou became the only prefecture-level city in West China out of a third batch of government endorsed pilot Free Trade Zones, or FTZs, with the launch of Chuannan Lingang FTZ under the Overall Plan for the China (Sichuan) Pilot FTZ (中國(四川)自由貿易試驗區川南臨港片區). Capitalizing on favorable policies and its relevant geographic advantages, Luzhou expedited the development of three key industrial zones in its jurisdiction, namely, Luzhou Hi-Tech Industrial Development Zone (瀘州國家高新區), Luzhou Yangtze River Economic Development Zone (瀘州長江經濟開發區) and China Liquor Golden Triangular Industrial Zone (中國白酒金三角酒業園區), through which, it managed to further enjoy the benefits of development of Yangtze River Economy Belt promoted by the PRC Government. In 2018, the GDP of Luzhou increased to RMB169.5 billion from RMB114.0 billion in 2013, representing a growth of 7.6% as compared to the previous year calculated at comparable prices.

3.2 Development Strategies

In 2019, under the basic operation guideline of establishing a bank with "first-class management, excellent operations, competitive compensation and best brand recognition", we will, by strategic orientation, improve management, explore transformation and innovation, enhance risk control and compliance and actively grasp new opportunities with a new look in the new era to promote our new development and continuously make new breakthroughs.

3.3 Analysis of Statements of Profits

3.3.1 Financial results highlights

Unit: RMB'000

Item	2018	2017
Net interest income	1,772,398	1,574,335
Net fee and commission income	1,868	(1,890)
Net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations	159,822	107,511
Operating expenses	(686,928)	(543,168)
Expected credit losses/Impairment losses	(396,810)	(324,846)
Share of profits of associates	3,640	2,544
Profit before tax	853,990	814,486
Income tax expenses	(195,683)	(195,783)
Net profit	658,307	618,703
Of which: net profit attributable to our shareholders	658,307	618,703

In 2018, the Bank's profit before tax amounted to RMB854 million, representing an increase of RMB40 million or 4.85% as compared to the previous year, and the net profit amounted to RMB658 million, representing an increase of RMB39 million or 6.40% as compared to the previous year. The following table sets forth the impacts of changes in the Bank's major profit or loss items on profit before tax for the year 2018.

Unit: RMB'000

Item	Amount
Profit before tax in 2017	814,486
Changes in 2018	
Changes in net interest income	198,063
Changes in net fee and commission income	3,758
Changes in net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations	52,311
Changes in operating expenses	(143,760)
Changes in impairment losses on assets	(71,964)
Changes in share of profits of associates	1,096
Profit before tax in 2018	853,990

3.3.2 Operating income

In 2018, the Bank's operating income amounted to RMB1,934 million, representing an increase of RMB254 million or 15.13% as compared to the previous year, of which net interest income accounted for 91.64%, representing a decrease of 2.07 percentage points as compared to the previous year. Net non-interest income amounted to RMB162 million, accounting for 8.36%. The following table sets forth the year-on-year comparison of the components of the Bank's operating income in the past five years.

Unit: %

Item	**2018**	**2017**	**2016**	**2015**	**2014**
Net interest income	91.64	93.71	88.42	93.95	76.53
Net fee and commission income	0.10	(0.11)	0.04	0.27	0.69
Net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations	8.26	6.40	11.54	5.78	22.78
Total	100.00	100.00	100.00	100.00	100.00

3.3.3 Net interest income

In 2018, the Bank's net interest income amounted to RMB1,772 million, representing an increase of RMB198 million or 12.58% as compared to the previous year, mainly due to the increase of the scale. The following table sets forth the average balance, interest income/expense and average yield/cost rate of the assets and liabilities of the Bank for the periods indicated. The average balances of interest-earning assets and interest-bearing liabilities are daily average balances.

Unit: RMB'000

Item	2018			2017		
	Average balance	Interest income/ expense (audited)	Average yield/cost rate	Average balance	Interest income/ expense (audited)	Average yield/cost rate
Interest-earning assets						
Loans and advances to customers	24,837,537	1,731,365	6.97%	16,262,407	1,045,916	6.43%
Investments(1)	29,455,488	1,808,545	6.14%	28,204,206	1,795,247	6.37%
Deposits and placements with banks and other financial institutions(2)	8,470,415	344,017	4.06%	9,205,161	401,372	4.36%
Deposits with central bank	7,276,825	114,787	1.58%	5,666,301	85,939	1.52%
Total	70,040,264	3,998,714	5.71%	59,338,074	3,328,474	5.61%
Interest-bearing liabilities						
Deposits from customers	47,097,756	1,280,020	2.72%	37,225,778	915,406	2.46%
Deposits and placements from banks and other financial institutions(3)	8,511,335	355,477	4.18%	10,050,091	413,121	4.11%
Debt securities issued	11,880,896	580,600	4.89%	9,371,307	405,912	4.33%
Others	332,808	10,219	3.07%	684,022	19,700	2.88%
Total	67,822,795	2,226,316	3.28%	57,331,199	1,754,139	3.06%
Net interest income	–	1,772,398	–	–	1,574,334	–
Net interest spread	–	–	2.43%	–	–	2.55%
Net interest margin	–	–	2.53%	–	–	2.65%

Notes: (1) Investments for 2018 indicated in section 3.3.3 include credit related financial assets, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortized cost, and investments for 2017 include credit related financial assets, available-for-sale financial assets and financial investments – investments classified as receivables.

(2) Deposits and placements with banks and other financial institutions indicated in section 3.3.3 include financial assets held under resale agreements.

(3) Deposits and placements from banks and other financial institutions indicated in section 3.3.3 include financial assets sold under repurchase agreements.

In 2018, the average balance of interest-earning assets was RMB70,040 million, representing an increase of RMB10,702 million or 18.04% as compared to the previous year, mainly due to an increase in the volume of loans and advances to customers and investments. Net interest margin was 2.53%, representing a decrease of 0.12 percentage point as compared to the previous year; and net interest spread was 2.43%, representing a decrease of 0.12 percentage point as compared to the previous year, mainly because the increase of interest expense on interest-bearing liabilities of the Bank outpaced that of interest income from interest-earning assets.

The following table sets forth the distribution of changes in the Bank's interest income and interest expense due to volume and interest rate changes for the periods indicated: the volume changes were measured by changes in average balance; interest rate changes were measured by changes in average interest rate, and changes in interest income and expense due to volume and interest rate changes were included in the changes in interest income and expense due to volume changes.

Unit: RMB'000

	2018 vs. 2017		
Item	**Due to volume**	**Due to interest rate**	**Net increase (decrease)**
Assets			
Loans and advances to customers	597,752	87,698	685,449
Investments	76,828	(63,530)	13,298
Deposits and placements with banks and other financial institutions	(29,841)	(27,514)	(57,355)
Deposits with central bank	25,405	3,443	28,848
Changes in interest income	**670,143**	**97**	**670,240**
Liabilities			
Deposits from customers	268,300	96,314	364,614
Deposits and placements from banks and other financial institutions	(64,266)	6,623	(57,644)
Debt securities issued	122,639	52,048	(174,688)
Others	(10,784)	1,303	(9,481)
Changes in interest expense	**315,889**	**156,288**	**472,177**
Changes in net interest income	**354,254**	**(156,191)**	**198,064**

3.3.4 Interest income

In 2018, the Bank's interest income amounted to RMB3,999 million, representing an increase of RMB670 million or 20.14% as compared to the previous year, mainly due to an increase in the volume of interest-earning assets. The interest income from loans and advances to customers and investments constituted the major part of the interest income of the Bank.

Interest income from loans and advances to customers

In 2018, the Bank's interest income from loans and advances to customers amounted to RMB1,731 million, representing an increase of RMB685 million or 65.54% as compared to the previous year. The following table sets forth the average balance, interest income and average yield of each component of the loans and advances to customers of the Bank for the periods indicated.

Unit: RMB'000

	2018			**2017**		
Item	**Average balance**	**Interest income**	**Average yield**	**Average balance**	**Interest income**	**Average yield**
Corporate loans	19,522,709	1,423,892	7.29%	11,732,790	783,654	6.68%
Personal loans	5,314,828	307,473	5.79%	4,529,617	262,261	5.79%
Total loans to customers	24,837,537	1,731,365	6.97%	16,262,407	1,045,916	6.43%

Interest income from investments

In 2018, the Bank's interest income from investments amounted to RMB1,809 million, representing an increase of RMB13 million or 0.74% as compared to the previous year, mainly due to an increase in the average balance of investment assets and a decrease in the average yield on investment assets to 6.14% from 6.37% in 2017. The increase in the average balance was primarily due to the to increase in our investments in debt securities, money market funds and other financial assets. The decrease in the average yield was primarily due to a decrease in the percentage of financial assets with higher yields and an increase in the percentage of financial assets with higher liquidity and security but lower yields.

Interest income from financial assets held under resale agreements, due from other banks and financial institutions

In 2018, the Bank's interest income from financial assets held under resale agreements, due from other banks and financial institutions amounted to RMB344 million, representing a decrease of RMB57 million or 14.29% as compared to the previous year, mainly due to a decrease in the volume and average yield of deposits and placements with banks and other financial institutions.

Interest income from balances with central bank

In 2018, the Bank's interest income from balances with central bank amounted to RMB115 million, representing an increase of RMB29 million or 33.57% as compared to the previous year, mainly due to an increase in the average balance of balances with central bank as a result of increased statutory deposit reserves with the People's Bank of China ("**PBoC**") as required resulting from the growth in deposits.

3.3.5 Interest expense

In 2018, the Bank's interest expense amounted to RMB2,226 million, representing an increase of RMB472 million or 26.92% as compared to the previous year, mainly due to an increase in the volume and average cost of interest-bearing liabilities. Interest expenses on deposits from customers and debt securities issued constituted the major part of the interest expense of the Bank.

Interest expense on deposits from customers

In 2018, the Bank's interest expense on deposits from customers amounted to RMB1,280 million, representing an increase of RMB365 million or 39.83% as compared to the previous year. The following table sets forth the average balance, interest expense and average cost rate of each component of the Bank's deposits from customers for the periods indicated.

Unit: RMB'000

Item	2018 Average balance	2018 Interest expense	2018 Average cost rate	2017 Average balance	2017 Interest expense	2017 Average cost rate
Corporate deposits						
Demand	21,017,604	323,817	1.54%	18,598,152	260,415	1.40%
Time	6,607,079	150,112	2.27%	5,127,248	125,956	2.46%
Subtotal	27,624,683	473,929	1.72%	23,725,399	386,371	1.63%
Personal deposits						
Demand	2,589,326	12,800	0.49%	2,221,611	11,903	0.54%
Time	16,883,747	793,291	4.70%	11,278,768	517,132	4.59%
Subtotal	19,473,073	806,091	4.14%	13,500,378	529,035	3.92%
Total deposits from customers	47,097,756	1,280,020	2.72%	37,225,778	915,406	2.46%

Interest expense on financial liabilities sold under repurchase agreements, due to other banks and financial institutions

In 2018, the Bank's interest expense on financial liabilities sold under repurchase agreements, due to other banks and financial institutions amounted to RMB355 million, representing a decrease of RMB58 million or 13.95% as compared to the previous year, mainly due to a decrease in the volume of deposits and placements from banks and other financial institutions.

Interest expense on debt securities issued

In 2018, the Bank's interest expense on debt securities issued amounted to RMB581 million, representing an increase of RMB175 million or 43.04% as compared to the previous year, mainly due to an increase in the volume and cost rate of debt securities issued.

3.3.6 Net non-interest income

In 2018, the Bank's net non-interest income amounted to RMB162 million, representing an increase of RMB56 million or 53.09% as compared to the previous year. The net fee and commission income as a percentage of operating income was 0.10%, representing an increase of 0.21 percentage point as compared to the previous year. The following table sets forth the major components of the Bank's net non-interest income for the periods indicated.

Unit: RMB'000

Item	2018	2017
Fee and commission income	9,245	8,110
Less: fee and commission expense	7,377	10,000
Net fee and commission income	1,868	(1,890)
Net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations	159,822	107,511
Total net non-interest income	161,690	105,621

3.3.7 Net fee and commission income

In 2018, the Bank's net fee and commission income amounted to RMB1.868 million, representing an increase of RMB3.758 million as compared to the previous year, mainly due to an increase in the fee income from agency business, guarantee business and investment banking business as well as a decrease in the expense on settlement business fees.

Unit: RMB'000

Item	2018	2017
Fee and commission income		
Fee income from settlement business	1,703	2,328
Fee income from bank card business	2,270	2,385
Fee income from agency business	2,036	1,175
Fee income from guarantee business	2,513	1,320
Fee income from wealth management business	120	888
Fee income from investment banking business	514	–
Fee income from other businesses	89	14
Total	9,245	8,110
Fee and commission expense	(7,377)	(10,000)
Net fee and commission income	1,868	(1,890)

In 2018, the Bank's fee income from settlement business amounted to RMB1.703 million, representing a decrease of RMB0.625 million or 26.85% as compared to the previous year, mainly due to the reduction or exemption of some quality customers and some settlement business fees. Fee income from bank card business amounted to RMB2.270 million, representing a decrease of RMB0.115 million or 4.82% as compared to the previous year, mainly due to a decrease in the service fees on cross-bank withdrawals. Fee income from agency business amounted to RMB2.036 million, representing an increase of RMB0.861 million or 73.28% as compared to the previous year, mainly due to an increase in the volume of collection business. Fee income from guarantee business amounted to RMB2.513 million, representing an increase of RMB1.193 million or 90.38% as compared to the previous year, mainly due to the fee income from letters of guarantee business. Fee income from wealth management business amounted to RMB0.12 million, representing a decrease of RMB0.768 million or 86.49% as compared to the previous year, mainly due to a decrease in the fee income from non-principal protected wealth management products issued. Fee income from investment banking business amounted to RMB0.514 million, representing the income from new advisory and consulting business during the year. Fee income from other businesses amounted to RMB0.089 million, representing an increase of RMB0.075 million or 535.71% as compared to the previous year.

3.3.8 Net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations

In 2018, the Bank's net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations amounted to a total gain of RMB160 million, representing an increase of RMB52 million or 48.66% as compared to the previous year. Among which, net (losses)/gains on trading activities increased by RMB24 million as compared to the previous year, mainly due to an increase in valuation as a result of the fair value changes of money market funds and other held-for-trading financial assets. Net gains arising from investments increased by RMB37 million as compared to the previous year, mainly due to an increase in the net gains from disposal of wealth management products measured at fair value through profit or loss. The following table sets forth the major components of the Bank's net (losses)/gains on trading activities, net gains arising from investments and net gains/(losses) from other operations for the periods indicated.

Unit: RMB'000

Item	**2018**	**2017**
Net (losses)/gains on trading activities	24,111	–
Net gains arising from investments	134,775	97,784
Net gains/(losses) from other operations	936	9,727
Total	159,822	107,511

3.3.9 Operating expenses

In 2018, the Bank's operating expenses amounted to RMB687 million, representing an increase of RMB144 million or 26.47% as compared to the previous year, and the cost-to-income ratio was 34.54%, representing an increase of 2.67 percentage points as compared to the previous year. Among which, staff costs (including directors' and supervisors' emoluments) increased by RMB92 million or 29.75% as compared to the previous year, mainly due to an increase in provision for performance-based remuneration. General and administrative expenses increased by RMB25 million or 18.39% as compared to the previous year; business tax and surcharges increased by RMB11 million or 143.10% as compared to the previous year, mainly because there was tax deduction in 2017 due to the changes in value-added tax policies, which returned to normal in 2018. The following table sets forth the major components of the Bank's operating expenses for the periods indicated.

Unit: RMB'000

Item	2018	2017
Staff costs (including directors' and supervisors' emoluments)	399,518	307,902
General and administrative expenses	162,158	136,971
Depreciation and amortization	58,274	41,707
Operating lease payments	21,080	18,312
Professional service expenses	12,522	11,229
Business tax and surcharges	18,947	7,794
Auditors' remuneration	2,700	875
Non-profit donation expenses	3,862	9,544
Other non-operating expenses	1,448	2,717
Other business expenses	6,419	6,117
Total	686,928	543,168

3.3.10 *Impairment losses on assets*

In 2018, the Bank's impairment losses on assets amounted to RMB397 million, representing an increase of RMB72 million or 22.15% as compared to the previous year. The following table sets forth the major components of the Bank's impairment losses on assets for the periods indicated.

Unit: RMB'000

Item	**2018**	**2017**
Impairment losses on customer loans		
– Impairment losses on syndicated loans	N/A	134,605
– Impairment losses on individual loans	N/A	81,923
Expected credit losses on loans at amortized cost	331,720	N/A
Expected credit losses on loans at fair value through other comprehensive income	(31,549)	N/A
Impairment losses/Expected credit losses on credit related financial assets	(38,741)	29,839
Impairment losses/Expected credit losses on other financial investments	101,389	76,599
Expected credit losses on guarantee commitment	12,200	N/A
Impairment losses on other assets	21,791	1,880
Total	396,810	324,846

Impairment losses on loans constituted the largest part of impairment losses on assets. In 2018, the impairment losses on loans (including discounted bills) amounted to RMB300 million, representing an increase of RMB84 million or 38.63% as compared to the previous year.

3.4 Analysis of Major Items of the Statement of Financial Position

3.4.1 Assets

As of the end of 2018, the Bank's total assets amounted to RMB82,550 million, representing an increase of RMB11,670 million or 16.47% as compared to the end of the previous year, mainly due to the increase of the Bank's loans and advances to customers. The following table sets forth the components of the Bank's total assets as of the dates indicated.

Unit: RMB'000

	December 31, 2018		December 31, 2017	
Item	**Amount**	**% of total**	**Amount**	**% of total**
Total customer loans	31,279,187	37.89	19,401,356	27.37
Impairment allowance on loans	N/A	N/A	(567,523)	(0.80)
Credit impairment loss allowance on loans at amortized cost	(792,833)	(0.96)	N/A	N/A
Customer loans, net	30,486,354	36.93	18,833,833	26.57
Cash and balances with central bank	8,373,038	10.14	8,145,703	11.49
Financial assets held under resale agreements, due from other banks and financial institutions	7,633,381	9.25	13,344,757	18.83
Financial investments – credit related financial assets	5,821,602	7.05	8,279,379	11.68
Financial investments – fair value through profit or loss	1,841,322	2.23	N/A	N/A
Financial investments – fair value through other comprehensive income	5,867,342	7.11	N/A	N/A
Financial investments – available-for-sale	N/A	N/A	11,376,611	16.05
Financial investments – amortized cost	21,395,762	25.92	N/A	N/A
Financial investments – investments classified as receivables	N/A	N/A	9,340,174	13.18
Investment in associates	36,651	0.04	33,011	0.05
Property, plant and equipment	675,358	0.82	614,772	0.87
Deferred income tax assets	186,871	0.23	244,306	0.34
Other assets	232,134	0.28	666,890	0.94
Total assets	82,549,815	100.00	70,879,436	100.00

Loans and advances to customers

As of the end of 2018, the Bank's total loans and advances to customers amounted to RMB31,279 million, representing an increase of RMB11,878 million or 61.22% as compared to the end of the previous year; net loans and advances to customers amounted to RMB30,486 million, representing an increase of RMB11,653 million or 61.87% as compared to the end of the previous year. The following table sets forth the loans and advances to customers of the Bank by product type as of the dates indicated.

Unit: RMB'000

	December 31, 2018		December 31, 2017	
Item	**Amount**	**% of total**	**Amount**	**% of total**
Corporate loans	24,784,475	79.24	11,951,162	61.60
Discounted bills	644,908	2.06	2,481,153	12.79
Personal loans	5,736,144	18.34	4,969,041	25.61
Interest receivable	113,660	0.36	N/A	N/A
Total customer loans	31,279,187	100.00	19,401,356	100.00
Less: impairment allowance	N/A	/	(567,523)	/
Less: credit impairment loss allowance on loans at amortized cost	(792,833)	/	N/A	/
Customer loans, net	30,486,354	/	18,833,833	/

Corporate loans

As of the end of 2018, the Bank's total corporate loans amounted to RMB24,784 million, representing an increase of RMB12,833 million or 107.38% as compared to the end of the previous year, accounting for 79.24% of the total loans and advances to customers, representing an increase of 17.64 percentage points as compared to the end of the previous year. In 2018, the Bank continuously optimized the regional allocation of credit resources, served the real economy and increased credit support for small and micro enterprises, agriculture-related economy, people's livelihood projects and urban infrastructure construction by serving the economy of Luzhou and actively expanding its cross-regional business, achieving a fast growth in its corporate loans.

Discounted bills

As of the end of 2018, the Bank's total discounted bills amounted to RMB645 million, representing a decrease of RMB1,836 million or 74.01% as compared to the end of the previous year, accounting for 2.06% of the total loans and advances to customers, representing a decrease of 10.73 percentage points as compared to the end of the previous year. The decrease in the balance of the Bank's discounted bills was primarily due to the successive maturity of the Bank's existing discounted bills, and the Bank's reduced holding of discounted bills to rebalance its credit asset structure, taking into account market competition and its loan balance.

Personal loans

As of the end of 2018, the Bank's personal loans amounted to RMB5,736 million, representing an increase of RMB767 million or 15.44% as compared to the end of the previous year, accounting for 18.34% of the total loans and advances to customers, representing a decrease of 7.27 percentage points as compared to the end of the previous year. The continual increase in the Bank's personal loans was primarily due to the Bank's successful development and marketing of its personal loan business, in particular, personal business loans and personal consumption loans. However, due to a greater percentage of the corporate loan business, the percentage of personal loans experienced a decrease.

Investments

As of the end of 2018, the carrying value of the Bank's investments amounted to RMB34,926 million, representing an increase of RMB5,930 million or 20.45% as compared to the end of the previous year. The following table sets forth the components of the Bank's investment portfolio as of the dates indicated.

Unit: RMB'000

	December 31, 2018		December 31, 2017	
Item	**Amount**	**% of total**	**Amount**	**% of total**
Financial investments – credit related financial assets	5,821,602	16.67	8,279,379	28.55
Financial investments – fair value through profit or loss	1,841,322	5.27	N/A	N/A
Financial investments – fair value through other comprehensive income	5,867,342	16.80	N/A	N/A
Financial investments – available-for-sale	N/A	N/A	11,376,611	39.23
Financial investments – amortized cost	21,395,762	61.26	N/A	N/A
Financial investments – investments classified as receivables	N/A	N/A	9,340,174	32.22
Total	34,926,028	100.00	28,996,164	100.00

The Bank has adopted International Financial Reporting Standards 9 – Financial Instruments (IFRS 9) since January 1, 2018. Prior to January 1, 2018, the Bank adopted International Accounting Standards 39 – Financial Instruments: Recognition and Measurement (IAS 39). The implementation of IFRS 9 has resulted in changes in the recognition, classification and measurement of the Bank's financial assets and financial liabilities, as well as related accounting policies for impairment of financial assets.

According to IFRS 9, the Bank's financial investments – available-for-sale were re-classified to financial investments – fair value through profit or loss, financial investments – fair value through other comprehensive income and financial investments – amortized cost. Meanwhile, financial investments – investments classified as receivables were re-classified to financial investments – amortized cost.

In addition, the Bank's accounting treatment of financial investments – credit related financial assets was the same as financial investments – investments classified as receivables under IAS 39 adopted prior to January 1, 2018 and financial investments – amortized cost under IFRS 9 adopted after January 1, 2018.

Financial investments – credit related financial assets

The Bank's credit related financial assets are corporate loans extended through consolidated structured entities (trust plans and asset management plans). The following table sets forth the components of the Bank's credit related financial assets as of the dates indicated.

Unit: RMB'000

Item	**December 31, 2018**	**December 31, 2017**
Financial investments – credit related financial assets		
– Trust plans	3,620,100	5,371,050
– Asset management plans	2,275,900	3,033,000
Impairment allowances	N/A	(124,671)
ECL allowance	(88,410)	N/A
Accrued interest	14,012	N/A
Total	5,821,602	8,279,379

Financial investments – fair value through profit or loss

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

Unit: RMB'000

Item	December 31, 2018	December 31, 2017
Financial investments – fair value through profit or loss		
– Equity securities	45,352	N/A
– Funds	1,693,111	N/A
– Debt securities	102,859	N/A
Total	1,841,322	N/A

Financial investments – fair value through other comprehensive income

The following table sets forth the components of the Bank's financial assets at fair value through other comprehensive income as of the dates indicated.

Unit: RMB'000

Item	December 31, 2018	December 31, 2017
Financial investments – FVOCI		
– Debt securities	5,747,169	N/A
Interest receivable	120,173	N/A
Total	5,867,342	N/A

Financial investments – available-for-sale

The following table sets forth the components of the Bank's available-for-sale financial assets as of the dates indicated.

Unit: RMB'000

Item	December 31, 2018	December 31, 2017
AFS-equity securities		
– Listed in Hong Kong	N/A	–
– Listed outside Hong Kong	N/A	–
– Unlisted equity investments	N/A	996
– Wealth management products	N/A	2,310,840
AFS-debt securities		
– Listed outside Hong Kong	N/A	9,064,775
Total	N/A	11,376,611

Financial investments – amortized cost

The following table sets forth the components of the Bank's financial assets measured at amortized cost as of the dates indicated.

Unit: RMB'000

Item	December 31, 2018	December 31, 2017
Financial investments – amortized cost		
– Industry funds (senior tranche)	5,222,000	N/A
– Unlisted corporate bonds	5,925,080	N/A
– Trust plans	2,086,000	N/A
– Debt securities	7,970,752	N/A
Subtotal	21,203,832	N/A
ECL allowance	(213,163)	N/A
Interest receivable	405,093	N/A
Total	21,395,762	N/A

Investments classified as receivables

Investments classified as receivables consist of asset management plans, wealth management products issued by financial institutions, and trust fund plans, etc.

The following table sets forth the components of the Bank's investments classified as receivables as of the dates indicated.

Unit: RMB'000

Item	December 31, 2018	December 31, 2017
Financial investments -investments classified as receivables		
– Industry funds (senior tranche)	N/A	4,478,520
– Unlisted corporate bonds	N/A	2,100,750
– Trust plans	N/A	2,885,000
Impairment allowance	N/A	(124,096)
Investments classified as receivables	N/A	9,340,174

3.4.2 Liabilities

As of the end of 2018, the Bank's total liabilities amounted to RMB76,183 million, representing an increase of RMB9,639 million or 14.49% as compared to the end of the previous year, mainly due to the stable increase in deposits from customers. The following table sets forth the components of the Bank's total liabilities as of the dates indicated.

Unit: RMB'000

	December 31, 2018		December 31, 2017	
Item	**Amount**	**% of total**	**Amount**	**% of total**
Deposits from customers	52,385,604	68.76	42,145,297	63.33
Financial liabilities sold under repurchase agreements, due to other banks and financial institutions	8,675,639	11.39	12,063,909	18.13
Borrowings from central bank	865,000	1.14	590,000	0.89
Tax payable	135,457	0.18	28,768	0.04
Debt securities issued	13,800,494	18.11	10,775,243	16.19
Other liabilities	320,835	0.42	940,504	1.42
Total liabilities	76,183,029	100.00	66,543,721	100.00

Deposits from customers

As of the end of 2018, the Bank's total deposits from customers amounted to RMB52,386 million, representing an increase of RMB10,240 million or 24.30% as compared to the end of the previous year, accounting for 68.76% of the Bank's total liabilities, being the Bank's primary source of funding. The following table sets forth the components of the Bank's deposits from customers by product type and customer type as of the dates indicated.

Unit: RMB'000

Item	December 31, 2018 Amount	% of total	December 31, 2017 Amount	% of total
Corporate deposits	29,679,305	56.66	26,114,843	61.96
Demand deposits	20,024,338	38.22	20,024,474	47.51
Time deposits	9,654,967	18.44	6,090,369	14.45
Personal deposits	22,229,489	42.43	16,030,454	38.04
Demand deposits	2,789,615	5.33	2,391,044	5.67
Time deposits	19,439,874	37.10	13,639,410	32.37
Accrued interest	476,810	0.91	N/A	–
Total deposits from customers	52,385,604	100.00	42,145,297	100.00

As of the end of 2018, the Bank's corporate demand deposits accounted for 38.22% of total deposits from customers, representing a decrease of 9.29 percentage points as compared to the end of the previous year. Among those deposits, corporate demand deposits accounted for 67.47% of corporate deposits, representing a decrease of 9.21 percentage points as compared to the end of the previous year; and personal demand deposits accounted for 12.55% of personal deposits, representing a decrease of 2.37 percentage points as compared to the end of the previous year.

Financial assets sold under repurchase agreements and deposits from banks and other financial institutions

As of the end of 2018, the Bank's financial assets sold under repurchase agreements and deposits from banks and other financial institutions amounted to RMB8,676 million, representing a decrease of RMB3,388 million or 28.09% as compared to the end of the previous year, mainly due to the Bank's adjustment of the business direction of interbank liabilities, the reduction in scale of repurchase business and increase in the volume of marketized interbank certificates of deposit issued.

Debt securities issued

As of the end of 2018, the Bank's bonds payable amounted to RMB13,800 million, representing an increase of RMB3,025 million or 28.08% as compared to the end of the previous year, of which the balance of interbank certificates of deposit increased by RMB2,977 million or 30.45% as compared to the previous year, mainly due to the Bank's establishment of marketized financing channels and increase in the volume of interbank certificates of deposit issued.

3.4.3 Equity attributable to shareholders

As of the end of 2018, the Bank's equity attributable to shareholders amounted to RMB6,367 million, representing an increase of RMB2,031 million or 46.85% as compared to the end of the previous year. On December 17, 2018, the Bank received a proceed of HK$1,735 million by issuing new overseas listed foreign shares (H Shares), thereby increasing the equity attributable to shareholders.

Unit: RMB'000

Item	**December 31, 2018**	**December 31, 2017**
Share capital	2,182,933	1,637,193
Capital reserve	2,094,444	1,174,606
Surplus reserve	336,340	270,509
General risk reserve	847,549	691,787
Other comprehensive income	62,669	(223,607)
Retained earnings	842,851	785,227
Total equity attributable to shareholders of the Bank	6,366,786	4,335,715
Total equity attributable to shareholders	6,366,786	4,335,715

3.5 Other Financial Information

3.5.1 Analysis of off-balance sheet items

The Bank's off-balance sheet items include credit commitments, operating lease commitments and capital commitments. Credit commitments are the most important parts and as of the end of the Reporting Period, the balance of credit commitments amounted to RMB2,762 million.

3.5.2 Overdue and outstanding debts

As of the end of the Reporting Period, the Bank had no overdue or outstanding debts.

3.5.3 Assets pledged

As of the end of the Reporting Period, some of the Bank's assets were pledged as collaterals under repurchase agreements with other banks and financial institutions.

3.6 Analysis of Loan Quality

During the Reporting Period, the Bank strengthened its dynamic monitoring on changes in and mitigation of risks in relation to credit asset quality, implemented credit policies and enhanced risk management in key industries. As a result, the credit assets scale maintained rapid growth. Due to our collection of non-performing loans ("**NPLs**") through multiple ways and channels, the NPL ratio has decreased, and the allowance coverage ratio has met the regulatory requirements. As at the end of the Reporting Period, the Bank's total loans amounted to RMB31,165.53 million, representing an increase of 60.64% as compared to the end of the previous year, total NPLs amounted to RMB248.26 million, representing an increase of RMB55.54 million as compared to the end of the previous year, and the NPL ratio was 0.80%, representing a decrease of 0.19 percentage point as compared to the end of the previous year.

Distribution of Loans by Five-Category Classification

Unit: RMB in million

	December 31, 2018		December 31, 2017	
Item	**Amount**	**% of total**	**Amount**	**% of total**
Normal loans	30,391.97	97.52	18,680.83	96.29
Special mention loans	525.30	1.68	527.81	2.72
Substandard loans	245.63	0.79	190.19	0.98
Doubtful loans	2.63	0.01	2.43	0.01
Loss loans	–	–	0.1	–
Total customer loans	31,165.53	100.00	19,401.36	100.00
Total NPLs	248.26	0.80	192.72	0.99

Pursuant to the regulatory requirements on risk-based classification of loans, the Bank adopted five-category classification to manage the quality of loans. NPLs include loans classified as substandard, doubtful and loss. During the Reporting Period, the Bank strictly controlled the quality of loans and accelerated disposal of existing NPLs. Total NPLs consisted of substandard loans and doubtful loans. As at the end of the Reporting Period, the percentage of substandard loans decreased by 0.19 percentage point to 0.79% as compared to the previous year, the percentage of doubtful loans remained no change as compared to the previous year, and no loss loans was recorded.

Distribution of Loans and NPLs by Industry

Unit: RMB in million

Item	December 31, 2018 Amount of loans	% of total	Amount of NPLs	NPL ratio %	December 31, 2017 Amount of loans	% of total	Amount of NPLs	NPL ratio %
Corporate loans	24,784.48	79.53	174.69	0.70	11,951.16	61.60	123.92	1.04
Leasing and business services	6,962.01	22.34	–	–	2,941.43	15.16	–	–
Construction	4,435.33	14.23	4.5	0.10	1,913.53	9.86	–	–
Wholesale and retail	3,380.62	10.85	65.27	1.93	1,087.68	5.61	39.8	3.66
Manufacturing	3,338.54	10.71	14.95	0.45	1,023.97	5.28	19.8	1.93
Real estate	2,836.86	9.10	–	–	2,077.79	10.71	–	–
Accommodation and catering	1,030.23	3.31	27.3	2.65	314.74	1.62	27.3	8.67
Education	887.40	2.85	–	–	227.13	1.17	–	–
Water, environment and public utilities	878.11	2.82	–	–	967.18	4.99	–	–
Transportation, warehousing and express services	351.82	1.13	50.17	14.26	365.32	1.88	28.8	7.88
Others	683.56	2.19	12.50	1.83	1,032.39	5.32	8.22	4.0
Discounted bills	644.91	2.07	–	–	2,481.16	12.79	–	–
Retail loans	5,736.14	18.4	73.57	1.28	4,969.04	25.61	68.79	1.38
Total customer loans	31,165.53	100	248.26	0.80	19,401.36	100	192.71	0.99

In 2018, the Bank actively optimized the allocation of risk-bearing assets and served the real economy, increased credit extension to support small and micro enterprises, agriculture-related economy, livelihood projects and urban infrastructure construction. The Bank also actively adjusted its credit structure and strictly controlled credit granted to industries with overcapacity and uncertain prospects, which resulted in improving risk resistance ability for additional credit assets. The amount of our non-performing corporate loans increased and the non-performing corporate loan ratio decreased as a result of the deteriorated financial condition and weakened repayment abilities of certain corporate borrowers in transportation, warehousing and express services and construction industries. By industry, the Bank's non-performing corporate loans mainly involved wholesale and retail, transportation, warehousing and express services, which accounted for 66.08% of the total non-performing corporate loans.

Distribution of Loans and NPLs by Product Type

Unit: RMB in million

Item	December 31, 2018 Amount of loans	% of total	Amount of NPLs	NPL ratio %	December 31, 2017 Amount of loans	% of total	Amount of NPLs	NPL ratio %
Corporate loans	24,784.48	79.53	174.69	0.70	11,951.16	61.60	123.92	1.04
Working capital loans	10,118.06	32.47	127.39	1.26	4,109.26	21.18	68.61	1.67
Fixed asset loans	14,666.42	47.06	47.30	0.32	7,841.90	40.42	55.31	0.71
Others	–	–	–	–	–	–	–	–
Discounted bills	644.91	2.06	–	–	2,481.16	12.79	–	–
Retail loans	5,736.14	18.41	73.57	1.28	4,969.04	25.61	68.79	1.38
Individual housing loans	2,100.87	6.74	20.14	0.96	2,253.92	11.62	15.72	0.76
Personal business loans	2,876.07	9.23	47.52	1.65	2,017.94	10.4	41.42	1.87
Personal consumption loans	759.20	2.44	5.91	0.78	697.18	3.59	11.65	1.71
Others	–	–	–	–	–	–	–	–
Total customer loans	31,165.53	100.00	248.26	0.80	19,401.36	100.00	192.71	0.99

Under the background of replacement of old drivers with new ones and constant advance of the supply-side reform, the Bank actively responded to the changes of demand for effective credits and maintained a relatively rapid growth in the scale of corporate loans while adhering to the principle of prudent extension. As at the end of the Reporting Period, the proportion of the Bank's corporate loans increased by 17.93 percentage points to 79.53% as compared to the end of the previous year. The NPL ratio of corporate loans decreased by 0.34 percentage point to 0.70% as compared to that at the end of the previous year as a result of our constant enhanced credit risk prevention and efforts in disposal of NPLs.

The Bank steadily developed its retail loans and actively innovated retail business products. The balance of retail loans increased by RMB767.1 million as compared to that at the beginning of the year, while the proportion of retail loans decreased by 7.2 percentage points to 18.41% due to the relatively large proportion of the growth in corporate business. The NPL ratio of retail loans decreased by 0.1 percentage point to 1.28% as compared to the end of the previous year as a result of our constant enhanced credit risk prevention and efforts in disposal of NPLs.

Distribution of Loans and NPLs by Geographical Region

Unit: RMB in million

Geographical Region	December 31, 2018 Amount of loans	% of total	Amount of NPLs	NPL ratio %	December 31, 2017 Amount of loans	% of total	Amount of NPLs	NPL ratio %
Luzhou	28,684.38	92.04	248.26	0.87	18,020.73	92.88	192.71	1.07
Outside Luzhou	2481.15	7.96	–	–	1,380.63	7.12	–	–
Total customer loans	31,165.53	100.00	248.26	0.80	19,401.36	100.00	192.71	0.99

The Bank continuously optimized the regional allocation of credit resources and enhanced risk management and control in key industries by serving the economy of Luzhou and actively expanding its cross-regional business. Under the situation of domestic economic restructuring with mounting pressure of non-performing during the year, the Bank strengthened the assessment and incentive measures for its branches and implemented review and approval mechanism with hierarchical authorisation on credit extension to corporate customers. Affected by the slowdown in the growth of local economy, the decline of market demand and other factors, the increase of NPLs was attributable to Luzhou.

Distribution of Loans and NPLs by Collateral

Unit: RMB in million

Item	December 31, 2018 Amount of loans	% of total	Amount of NPLs	NPL ratio %	December 31, 2017 Amount of loans	% of total	Amount of NPLs	NPL ratio %
Unsecured loans	2,631.53	8.44	2.59	0.10	1,442.79	7.44	2.85	0.20
Guaranteed loans	10,493.31	33.67	53.98	0.51	4,342.81	22.38	6.9	0.16
Collateralized loans	12,869.76	41.30	190.57	1.48	7,671.09	39.54	182.62	2.38
Pledged loans	5,170.93	16.59	1.12	0.02	5,944.67	30.64	0.34	0.01
Total customer loans	31,165.53	100.00	248.26	0.80	19,401.36	100.00	192.71	0.99

The Bank strengthened risk prevention and control through risk mitigation measures such as increasing collateral. The collateralized loans accounted for 41.30% of the total loans, and the proportion of collateralized loans with high non-performing ratio dropped by 0.9 percentage point to 1.48%. The Bank increased its support for local infrastructure construction projects as well as micro and small enterprises by extending certain unsecured loans, which resulted in an increase in the proportion of unsecured loans by 1 percentage point to 8.44% as compared to the end of the previous year.

Loans to Our Ten Largest Single Borrowers

Unit: RMB in million

Name of borrowers	Industry	Amount of loans as at the end of the Reporting Period	% of net capital base	% of total loans
A	Real estate	600.00	7.63	1.93
B	Construction	560.00	7.12	1.80
C	Manufacturing	500.00	6.35	1.60
D	Leasing and business services	500.00	6.35	1.60
E	Accommodation and catering	497.68	6.33	1.60
F	Real estate	487.00	6.19	1.56
G	Education	460.00	5.85	1.48
H	Leasing and business services	450.00	5.72	1.44
I	Construction	430.00	5.47	1.38
J	Manufacturing	427.00	5.43	1.37
Total		4,911.68	62.43	15.76

As at the end of the Reporting Period, the total loans of the ten largest single borrowers of the Bank amounted to RMB4,912 million, accounting for 62.43% of the Bank's net capital base and 15.76% of the Bank's total loans. The loan balance of the largest single borrower was RMB600 million, accounting for 7.63% of the Bank's net capital base.

Distribution of Loans by Period Overdue

Unit: RMB in million

Period overdue	December 31, 2018 Amount	December 31, 2018 % of total loans	December 31, 2017 Amount	December 31, 2017 % of total loans
Overdue for up to 3 months (inclusive)	80.28	0.26	116.10	0.60
Overdue for over 3 months up to 1 year (inclusive)	115.84	0.37	26.93	0.14
Overdue for over 1 year up to 3 years (inclusive)	57.48	0.18	90.89	0.47
Overdue for over 3 years	23.78	0.08	2.31	0.01
Total overdue loans	277.38	0.89	236.23	1.22
Total customer loans	31,165.53	100.00	19,401.36	100.00

As at the end of the Reporting Period, the Bank's overdue loans amounted to RMB277.38 million, representing an increase of RMB41.15 million as compared to the end of the previous year. The percentage of overdue loans in the Bank's total loans was 0.89%, representing a decrease of 0.33 percentage point as compared to the end of the previous year. Among them, loans overdue for up to 3 months (inclusive) amounted to RMB80.28 million, accounting for 28.94% of overdue loans. The Bank adopted more strict classification criteria, under which the loans whose principal or interest has been overdue for over 1 day (inclusive) shall be deemed as overdue loans.

Foreclosed Assets and Provision for Impairment Allowance

As at the end of the Reporting Period, the Bank's total foreclosed assets amounted to RMB152.877 million with provision for impairment allowance of RMB23.446 million, and the net foreclosed assets amounted to RMB129.431 million.

Changes in Provision for Impairment Allowance/Expected Credit Losses of Loans

In 2017, under the requirements of IAS 39, we used to assess whether objective evidence of impairment existed individually for loans that were individually significant, and individually or collectively for loans that were not individually significant. If we determined that no objective evidence of impairment exists for an individually assessed loans, whether significant or not, such loans were included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. Loans that were individually assessed for impairment and for which an impairment loss was or continued to be recognized were not included in a collective assessment of impairment.

The following table sets forth the changes in the Bank's provision for impairment allowance for loans in 2017: (Unit: RMB'000)

Item	2017
Balance at the beginning of the year	375,385
Provision/reversal for the year	216,528
Unwind of discount	(3,995)
Written-off and transfers for the year	(30,154)
Reversal from recoveries of customer loans and advances written-off and others	9,759
Balance at the end of the year	567,523

The Bank has implemented IFRS 9 since January 1, 2018 and assessed our impairment allowance for loans in accordance with its requirements. The following table sets forth the new impairment allowance for loans under IFRS 9 on January 1, 2018 adjusted from that as at the end of the Reporting Period under IAS 39: (Unit: RMB'000)

Provision for impairment allowance for loans under the previous accounting policies applicable to financial instruments	567,523
Reclassifications	(37,753)
Expected credit losses	(62,689)
Provision for impairment allowance for loans under the new accounting policies applicable to financial instruments	467,081

Starting from January 1, 2018, under the requirements of IFRS 9, we classify our customer loans using a "three-stage" model: (1) Stage 1 (Normal Credit Quality) refers to customer loans that have not had a significant increase in credit risk and expected credit losses in the next 12 months will be recognized; (2) Stage 2 (Significant Increase in Credit Risk) refers to customer loans that have had a significant increase in credit risk and for which the expected credit losses lifetime will be recognized; (3) Stage 3 (Credit-impaired) refers to customer loans that have objective evidence of impairment and for which the expected credit losses lifetime will be recognized. We have developed a new expected credit loss impairment model in accordance with IFRS 9 to measure the expected credit losses, taking into account various of factors such as macroscopic index, macroeconomic indicators and macro-financial scenario analysis.

An impairment loss is recognized through profits or losses when there is objective evidence that loans are impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loans' original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized/pledged financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral or pledges. We made full provision for impairment allowance for loans classified as "loss". For loans classified as "substandard" and "doubtful", we generally do not make full provision for impairment allowance and measure impairment allowance as the difference between the carrying amounts and the estimated recoverable amounts of the loans. The estimated recoverable amounts are the present value of the estimated future recoverable cash flows of the loans, including the recoverable value of the collateral or pledges.

The following table sets forth the changes in the Bank's expected credit impairment losses of loans in 2018: (Unit: RMB'000)

Item	2018
Balance at the beginning of the year	467,081
Provision/reversal for the year	331,721
Written-off for the year	(13,144)
Recoveries of loans written-off in the previous year	1,861
Unwind of discount	5,314
Balance at the end of the year	792,833

As at the end of the Reporting Period, the Bank's balance of impairment allowance for loans amounted to RMB792,833 thousand, representing an increase of RMB225,310 thousand or 39.70% as compared to the end of the previous year; the allowance coverage ratio of NPLs amounted to 319.36%, representing an increase of 24.87 percentage points as compared to the end of the previous year; the allowance to total loan ratio amounted to 2.54%, representing a decrease of 0.39 percentage point as compared to the end of the previous year.

Corresponding measures taken against Non-performing Assets

During the Reporting Period, the Bank mainly adopted the following measures for management of non-performing assets to enhance management and control on the asset quality and ensure its stability:

(1) Strengthen NPL disposal. The Bank enhanced non-litigation collection efforts to collect loans which can be settled through non-litigation process in advance, enhanced the coordination with judicial departments of various levels to accelerate the progress of litigation collection, strengthened the communication and collaboration with industry associations and interbank and made full use of the coordination mechanism of the Banking Creditors' Committee to positively take part in the integration and settlement and disposal of non-performing assets and credit risks, so as to adequately protect and safeguard the Bank's legal rights. The Bank also explored possibilities of resolving and disposing of non-performing assets through multiple channels based on the traditional collection means and wrote off assets which could be written-off, if appropriate, to optimize the credit asset structure.

(2) Reinforce resolving of additional risky loans. The Bank conducted real- time monitoring on overdue loans and risky loans to prevent and mitigate risks in a timely manner.

Credit extension to group customers and risk management

The Bank adhered to the principles of "implementing unified credit extension, providing an appropriate amount and conducting real-time monitoring" in extending credit to group customers. Firstly, to prevent large-sum credit risk, the Bank implemented unified management of credit extension to group customers and consolidated the total credit amount extended to group members to ensure the credit approval limits. Secondly, the Bank strengthened the identification of group customers and invisible related relationship among enterprises and identified the invisible related relationship among corporate customers by such dimensions as corporate product flow, corporate capital flow, corporate guarantee circle and family ties of actual controllers. Thirdly, the Bank strengthened and timely monitored unified management of credit extension to group customers. The Bank controlled the credit limit through establishing credit account of group customers, arranged and updated the list of group customers in a timely manner and prudently checked credit limits so as to prevent concentration risk and improve its group customer management level on an ongoing basis.

Discount interest loans representing 20% (inclusive) or more of the total loans as at the end of the Reporting Period

As at the end of the Reporting Period, the Bank had no discount interest loans representing 20% (inclusive) or more of the total loans.

3.7 Analysis of Capital Adequacy Ratios

The capital management of the Bank, while satisfying regulatory requirements, is targeted to constantly enhance the ability to resist risk of capital and boost return on capital, and on this basis, it reasonably sets the Bank's capital adequacy ratio target and guides business development by means of performance appraisal and capital allocation in a bid to achieve the coordinated development of its overall strategy, business and capital management strategy.

We conduct regular internal capital evaluation and stress testing to evaluate our capital adequacy and risk resistance ability. According to our internal capital evaluation and risk profile, we timely adjust our capital plans and high-capital asset businesses, and guide branches and management departments to carry out more capital-saving businesses and high-return businesses to meet the planned capital adequacy ratio target.

We calculate our capital adequacy ratio in accordance with the Capital Administrative Measures for Commercial Banks (Provisional) (《商業銀行資本管理辦法(試行)》) (CBRC Order 2012 No. 1) and other relevant regulatory provisions. The on-balance-sheet credit risk-weighted assets are calculated with different risk weights determined in accordance with each asset, credit of the counterparty, market and other relevant risks and by considering the effects of qualified pledge and guarantee; the same method is also applied to the calculation of off-balance-sheet credit risk exposure. Market risk-weighted assets are calculated with the standard method, and the operational risk-weighted assets are calculated with the basic indicator method. During the Reporting Period, we complied with the capital requirements prescribed by regulatory authorities.

The following table sets forth the information of our capital adequacy ratio as at the dates indicated.

Unit: RMB'000

	December 31, 2018	**December 31, 2017**
Total capital before deductions	7,904,483	5,710,525
Of which : Core tier-one capital	6,366,786	4,335,716
Tier-two capital	1,537,697	1,374,809
Total net capital	7,867,832	5,710,525
Net core tier-one capital	6,330,135	4,335,716
Net tier-one capital	6,330,135	4,335,716
Total risk-weighted assets	59,214,150	41,704,197
Core tier-one capital adequacy ratio	10.69%	10.40%
Tier-one capital adequacy ratio	10.69%	10.40%
Capital adequacy ratio	13.29%	13.69%

At the end of the Reporting Period, the Bank had a capital adequacy ratio of 13.29%, representing a decrease of 0.4 percentage point as compared to the end of the previous year, which was 2.79 percentage points higher than the regulatory requirement; and a core tier-one capital adequacy ratio of 10.69%, representing an increase of 0.29 percentage point as compared to the end of the previous year, which was 3.19 percentage points higher than the regulatory requirement. The change in our capital adequacy ratio during the Reporting Period was primarily due to an increase in our overall risk-weighted assets driven by our business development, but the overall risk remained controllable within a reasonable range. Thus, our capital adequacy ratio at each tier was higher than regulatory standards.

3.8 Risk Management

Credit risk

Credit risk refers to the risk arising from the failure of an obligor or a party concerned to fulfil its obligations in accordance with agreed terms. We are exposed to credit risks primarily arising from our loan business, acceptance business, letters of guarantee business and financial market business.

Pursuant to regulatory requirements, we managed our on-and-off balance sheet credit assets by implementing five-category classification based on the obligor's repayment abilities and intention, taking into account various factors including the guarantor, pledges and collaterals and overdue period. The classification is successively subject to preliminary opinions of the responsible management institution, initial review of the Credit Business Department at our head office, re-examination of the Risk Management Department at our head office and consideration and confirmation by the Centralized Risk Management Committee.

The Credit Business Department at our head office takes a leading role in our credit risk management and regularly reports our risk management to the Credit Risk Management Committee, the Centralized Risk Management Committee and the Board. During the Reporting Period, we adhered to the risk control principle of "active compliance, strict risk control and internal control strengthening" and kept intensifying efforts for credit risk management by credit direction structure and system improvement, credit staff cultivation and internal examination enhancement, non-performing loan reduction, etc. During the Reporting Period, we intensified credit risk management mainly in the following aspects:

1. Optimizing credit structure and strengthen policy guidance. Adhering to the credit industry distribution policy "in line with national macroeconomic policies and industrial policies and our credit risk appetite, and achieving risk control in a scientific and rational manner", we formulated the Guidelines for Credit Direction of Luzhou City Commercial Bank in 2018 (《泸州市商业银行2018年信貸投向指引》) in a bid to scientifically and rationally allocate our credit resources, effectively guide industry credit direction, promote optimization and adjustment of our credit structure, and rapidly improve our ability to prevent credit risks.

2. Strengthening risk screening and risk control in key areas. We intensified efforts for risk monitoring and screening in view of large credit customers and potentially risky customers, strengthened internal inspection on key areas and key risk areas such as guarantee business, real estate industry, financial market business and bill business. We learned more about the bottom line of risk by special inspection, risk screening, self-examination and self-correction and other methods to strengthen our risk management and control and ensure the stability of our asset quality.

3. Sparing no effort in the control of non-performing and overdue loans and disposing of non-performing loans in a timely manner. We established overdue loan tracking and monitoring accounts, strengthened early warning management, and responsively formulated risk disposal plans and took necessary protective measures against alert credit customers; for non-performing loan business, we worked out risk dissolution plans based on "one customer one scheme", and dissolved and disposed of risks by stepping up collection, transferring foreclosed assets and other measures so as to control our asset quality within a reasonable range; and leveraged the communication and cooperation mechanism established with peer institutions and government departments to achieve information sharing and jointly deal with problems arising from corporate operations by unified actions.

4. Conducting self-examination and self-correction on business compliance and providing cooperation for regulatory inspection and making active rectifications. In accordance with the relevant requirements of regulatory authorities, we actively organized the rectification of market chaos, with a normal focus on rectifying the chaos in the banking market, and studied, deployed and put in place our business operation and management, system restructuring and compliance culture building at the same time to transform chaos rectification into self- conscious internal control management, and conducted compliance operation truly in line with rules by adhering to inspection, rectification, accountability, education, standard and improvement.

5. Strengthening credit review and approval, and strictly implementing hierarchical authorization management for credit business. We strengthened unified credit extension and unified management, and implemented hierarchical authorization for credit business according to our business development needs; enhanced credit risk review and strictly implemented the independent review and approval mechanism based on the principle of "objectivity and fairness, legal review, independent credit granting/approval, and responsibility for risks", with a focus on the review of industrial policies, credit policies, use of loan, repayment ability and guarantee ability. We reinforced credit management of the Group and laid emphasis on prevention of customer risks associated with long position financing and excessive credit extension. We also effectively identified high-risk customers and proposed risk prevention measures to strictly control risks.

6. Improving the quality of credit team and promoting healthy and rapid development of the credit business. We enhanced training and guidance to improve business ability and risk awareness. We conducted follow-up training for our branch credit staff, invited internal business backbones to launch intensive themed training for our credit line staff, carried out education on risk prevention knowledge and skills for our credit line staff on an irregular basis through online platforms, kept improving the business ability and risk compliance awareness of our credit line staff across the bank and established an enterprise risk training culture that controls substantial risks to put an end to risk cases from the source.

Operational risk

Operational risk refers to the risk of loss arising from inadequate or problematic internal procedures, employees and information technology systems, and external events.

We focus on the work of preventing systematic operational risks and major operational risks. As the supreme decision-making body of our operational risk management, our Board bears the ultimate responsibility for monitoring the effectiveness of operational risk management, works out operational risk management strategies and general policies that are consistent with our strategic objectives and applicable to the bank, and regularly reviews the operational risk reports submitted by our senior management to fully understand our overall operational risk management and the effectiveness of major operational risk events handled by our senior management. Our Board of Supervisors is responsible for supervising the performance of duties by our Board and senior management on operational risk management and providing relevant supervision opinions. Our senior management is responsible for implementing the operational risk management strategies determined by our Board, formulating systematic systems, processes and methods, and adopting corresponding risk control measures to comprehensively prevent and control operational risks. Our subordinate Operational Risk Management Committee is responsible for specific operational risk prevention and control. Moreover, we applied effective risk prevention and control means to ensure effective identification, evaluation and supervision of operational risks, constantly improved our operational risk management capability, and gradually elevated our risk prevention and control level. During the Reporting Period, we intensified operational risk management mainly in the following aspects:

1. Centering on the bank-wide strategic business, we strengthened internal control and carried out special inspection and risk evaluation from multiple perspectives including systems, processes and employee behaviours, and collected and analyzed key indicators of operational risks and gave early warnings by giving play to the key role of “three lines of defense” including business departments and foreground business personnel, the Risk Management Department and Internal Audit Department so as to cut off operational risks in an all-round manner.

2. We innovated work ideas and continuously promoted the building of operational risk-related system and publicity of compliance culture to ensure the integrity, rationality and effectiveness of our internal control system; and strictly prevented operational risks by strengthening personnel and position management, enhancing compliance awareness among the employees and instructing the employees to operate in compliance with regulations through inspection on abnormal behaviours of the employees holding key positions, continuous training, onsite inspection, off-site supervision and other means.

3. We effectively integrated “manual prevention” and “technical prevention” to enhance the system background’s ability in preventing non-compliant operation by upgrading the system dynamics, strategically promoting the construction of and innovation in information technology, implementing a model with foreground business handled according to centralized authorization from the background, reducing the frequency of manual operation, and raising the level of automation and hard control ability of our system.

4. We greatly improved business continuity management and IT risk management, strengthened the safety guarantee for information technology system, paid attention to the construction relating to disaster backup and emergencies, and intensified the management over the safety of information of outsourcing service providers and personnel.

Market risk

Market risk refers to the risk of any loss in our on-balance-sheet and off-balance-sheet activities caused by any adverse change in market prices (interest rates, exchange rates, stock prices and commodity prices). The market risks we face mainly include interest rate risk and exchange rate risk. Our market risk management aims at controlling market risks at an acceptable level and maximizing risk-adjusted return according to our risk appetite.

We manage our interest rate risks and exchange rate risks according to the Guidelines on Market Risk Management of Commercial Banks (《商業銀行市場風險管理指引》) (CBRC Order [2004] No.10), Guidelines for the Internal Control of Commercial Banks (《商業銀行內部控制指引》) and Guidelines for the Stress Testing of Commercial Banks (《商業銀行壓力測試指引》), and have established a market risk management system through such measures as authorization, credit extension, risk limit-related regulations, monitoring and reporting.

We have established an organizational structure for marker risk management, which covers the Board and its committees, the Board of Supervisors and its committees, senior management and its Centralized Risk Management Committee and Market Risk Management Committee, and business departments including our Risk Management Department, Internal Audit Department, Assets and Liabilities Management Department, Internal Control and Compliance Department and other department in charge of risk management relating to their business. With a sound and compliant internal control system for market risk management, during the Reporting Period, we carried out a special internal audit on market risk and formed an audit report which was submitted to the Board.

1. *Interest rate risk analysis*

   Our interest rate risks arise primarily from the mismatch in the repricing periods of interest rates on assets and liabilities and the impact of changes in market interest rates on asset trading positions.

   With respect to the repricing risk in assets and liabilities businesses, we mainly measured the interest rate sensitivity gap periodically, analyzed the interest rate risk we could bear through the gap and further evaluated the impacts of changes in interest rates on net interest incomes and net values. We also adjusted the repricing cycle of loans and optimized deposit rate ceilings according to the status quo of the gap.

   Regarding the interest rate risk of asset trading positions, we paid close attention to the latest developments of the government's economic policies, measured, monitored and set interest rate sensitivity, exposure and other risk limits by sensitivity analysis, scenario simulation and other means, and regularly and effectively monitored, managed and reported the implementation of risk limits.

   Adopting a steady business philosophy, we actively adjusted the asset-liability structure and reasonably assumed interest rate risk according to the measurement and evaluation results under the precondition of risk control.

2. Interest rate sensitivity analysis

We use sensitivity analysis to measure the potential effect of changes in interest rates on our net interest income. The following table sets forth, as at December 31, 2018 and 2017, the results of our interest rate sensitivity analysis based on our assets and liabilities at the same dates.

Unit: RMB'000

	Expected changes of net interest income	
	December 31, 2018	**December 31, 2017**
+ 100 basis point parallel move in all yield curves	(31,726)	(36,851)
- 100 basis point parallel move in all yield curves	31,726	36,851

The table below illustrates the potential impact of a 100 basis point move on the other comprehensive income of the Bank.

Unit: RMB'000

	Changes of other comprehensive income	
	December 31, 2018	**December 31, 2017**
+ 100 basis point parallel move in all yield curves	(229,598)	(393,742)
- 100 basis point parallel move in all yield curves	245,862	426,712

3. Exchange rate sensitivity analysis

The following table sets forth, as at December 31, 2018 and 2017, the results of our exchange rate sensitivity analysis based on our assets and liabilities at the same dates.

Unit: RMB'000

	Expected changes of profit/(loss) before tax	
	December 31, 2018	**December 31, 2017**
1% increase in foreign exchange rate against RMB	15,206	–
1% decrease in foreign exchange rate against RMB	(15,206)	–

Liquidity risk management and analysis

Liquidity risk refers to the risk that the commercial banks cannot timely obtain sufficient funds or cannot timely obtain them at reasonable costs to respond to asset growth or pay mature debts although they are solvent.

Our liquidity risk management aims at fully identifying, measuring and monitoring the liquidity risk in our business lines and links by establishing and continuously improving the strategies, policies, procedures and systems for managing liquidity risk; ensuring sufficient funds to meet the needs for paying debts due and funding business operation in normal operation and stressful situations; and achieving the coordination and unity between safety, liquidity and profitability in business development to promote our sustainable and healthy operation.

To improve the effectiveness of liquidity risk management, we have established a governance structure for liquidity risk management according to the principle of separating the functions of formulating, implementing and supervising liquidity risk management policies, which provides the duties and reporting lines of the Board and its committees, the Board of Supervisors and its committees, senior management and its Centralized Risk Management Committee, Liquidity Risk Management Committee and our related departments, branches and sub-branches in respect of liquidity risk management. As we have implemented a stable liquidity risk appetite better suiting our current development. Currently, our liquidity risk management policies and systems are in line with regulatory requirements and our management needs.

We fully identify, accurately measure, continuously monitor and effectively control liquidity risk from two aspects: short-term provision and mid-and-long term structure through the information system for liquidity risk management, continuously monitor and analyze the future cash flow and various limits and indexes, and periodically conduct stress testing to judge whether we have the ability to meet the liquidity needs in extreme cases. In addition, we have formulated a liquidity risk contingency plan which we regularly test and evaluate.

We hold adequate high-quality liquid assets to ensure our liquidity needs, and have sufficient funds to meet unforeseeable potential payment needs in daily operation. Most of our funds are from deposits accepted, which constituted a stable fund resource due to their rapid growth, wide varieties and diversified terms during the Reporting Period.

With a sound and compliant internal control system for liquidity risk management, we carry out special internal audit on liquidity risk every year and form an audit report which will be submitted to the Board.

In 2018, while paying close attention to changes in macro finance and economy, we further enhanced fine management of liquidity risk. During the Reporting Period, we intensified liquidity risk management mainly in the following aspects:

1. We made greater efforts in the marketing of deposits, particularly the marketing of personal savings and stable deposits from quality small and medium-sized customers, to promote the growth of various deposits and gradually improve the overall stability of our liabilities.

2. We strengthened the prudent and reasonable judgement on financial and economic situations, continuously and dynamically monitored various index limits of liquidity risk through the information system for liquidity risk management and made fund arrangements in advance to ensure sufficient provisions and controllable liquidity risks.

3. We continuously optimized asset-liability structure by constantly intensifying the bidirectional management of assets and liabilities, improving the stability of liabilities through multiple channels, rationally arranging for asset issuance and avoiding centralized maturity of liabilities and centralized issuance of assets.

4. We designed several stress scenarios and conducted periodic liquidity risk-related stress testing in strict accordance with relevant provisions under the Administrative Measures on Liquidity Risk Management of Commercial Banks (《商業銀行流動性風險管理辦法》) issued by CBIRC, various macro and micro factors which could affect our liquidity and features, scale, properties, complexity and risk status of our business.

As of the end of the Reporting Period, we witnessed a liquidity ratio of 73.4%, 48.4 percentage points higher than relevant regulatory standards; a high-quality liquidity asset adequacy ratio of 103.23%, 23.23 percentage points higher than relevant regulatory requirements; and a liquidity matching ratio of 124.82%, 24.82 percentage points higher than relevant regulatory requirements, which reflected that our major liquidity indexes were higher than regulatory requirements.

Information technology risk management

Keeping up with the development of Internet and aiming at achieving our business development strategies, we adhere to customer focus, innovation-driven development, an open and shared corporate structure and system and risk control to ensure the safety of information. In adherence to overall technology innovation, we established the first smart outlet in Luzhou, which comprehensively promoted the transformation and development of our branch network. We also set up an IT innovation center and made great efforts in the building of information system and introduction of sci-tech talents, which effectively supported the completion of various business goals during the Reporting Period, continuously helped the Bank improve the core competitiveness and substantially supported the information technology work.

We kept promoting integration and innovation of technology and business to improve our business support ability. In information technology construction, we achieved development from passive service for businesses to active leading of businesses. In 2018, through construction of several key projects including upgrading of Class II/III accounts, early warning system for migrant workers' salary, customized bank-enterprise direct connection system and micro and small loan system, we continuously improved the financial service ecosystem featuring resource sharing and mutual benefits, enhanced customers' experience in an all-round way and launched such systems and products as Nian Nian Sheng, precious metal, Zhi Rong Dai, safe deposit box, Hui Rong Tong, online payment and city-wide real estate. While ensuring compliance operation and meeting regulatory requirements, we actively served people's livelihood and micro and small enterprises to effectively expand our service channels and customer base.

We kept improving the business continuity management and information security system to improve our ability to protect system safety. During the Reporting Period, we completed construction of the data center in the new office building and the maintenance management system. Meanwhile, we improved our application structure system, constantly carried out business continuity construction, completed expansion and upgrading of several key systems and infrastructures and enhanced backup mechanism to ensure stable operation of systems. We attached great importance to information security management, kept improving our ability to prevent and control information technology risks, enhanced building of information technology governance system and internal control, conducted assessment on compliance with the Cyber Security Law of the People's Republic of China, strengthened Internet safety protection and carried out third-party safety assessment for Internet-based business systems to effectively prevent technology risks.

During the Reporting Period, our topic research level and scientific and technological strength stepped to a new stage. Our Study and Practice Concerning Monitoring Model for Operational Risks of Small and Medium Commercial Banks won us the Outstanding Contribution Award for Development and Innovation of the Finance Industry issued by the People's Bank of China in 2018 and Class 4 Achievement Award for Topic Research of Information Technology Risk Management of the Banking Industry issued by the CBRC in 2018.

3.9 Segment Reporting

The following segment operating results are presented by business segment. The Bank's main businesses include corporate banking, retail banking, financial market business, unallocated items and others. The following table sets forth a summary of the operating results of each business segment of the Bank for the periods indicated.

Unit: RMB'000

	2018		2017	
Item	**Segment profit before tax**	**Ratio %**	**Segment profit before tax**	**Ratio %**
Corporate banking	366,465	42.91	257,582	31.63
Retail banking	170,579	19.97	248,995	30.57
Financial market business	338,435	39.63	300,293	36.87
Others	(21,489)	(2.51)	7,616	0.93
Total	853,990	100.00	814,486	100.00

Unit: RMB'000

	2018		2017	
Item	**Segment operating income**	**Ratio %**	**Segment operating income**	**Ratio %**
Corporate banking	906,143	46.85	532,738	31.71
Retail banking	332,069	17.17	493,736	29.39
Financial market business	694,926	35.93	643,742	38.32
Others	950	0.05	9,740	0.58
Total	1,934,088	100.00	1,679,956	100.00

3.10 Business Review

Corporate banking business

We provide our corporate customers with diversified financial products and services to support their business needs, including corporate loans, bill discounting and corporate deposits.

Corporate loans

The majority of our corporate loan customers are enterprises incorporated or otherwise having their primary operations in Sichuan Province, in particular Luzhou. Corporate loans have been the largest component of our loan portfolio. As of December 31, 2018, the balance of our corporate loans amounted to RMB24,784.4756 million, accounting for 79.53% of our total loans and advances to customers as of the same date, and representing an increase of 107.38% as compared to the beginning of the Reporting Period. In particular, our loans to medium to large enterprises amounted to RMB7,233.238 million, accounting for 29.18% of our total corporate loans as of the same date; our loans to micro and small enterprises amounted to RMB17,514.9876 million, accounting for 70.67% of our total corporate loans as of the same date. Our other corporate loans amounted to RMB36.25 million, accounting for 0.15% of our total corporate loans as of the same date.

In contrast to medium to large enterprises, micro and small enterprises and individual business owners have urgent and frequent financing needs. As a result, we have streamlined the loan origination and evaluation process to offer tailored financing solutions to both micro and small enterprises and individual business owners. To better serve the needs of these micro and small enterprises, we have also set up specialized teams as well as customer service centers for micro and small enterprises, and established a proprietary database, rating model, and system covering various procedures for granting loans to micro and small enterprises, such as customer application, risk review and approval, and post-disbursement management. Meanwhile, we fully leveraged the PBoC's policies such as relending to support development of micro and small enterprises and targeted cuts to required reserve ratios to enhance support for financing of micro and small enterprises. As of December 31, 2018, we accumulatively issued 230 loans of relending to support development of micro and small enterprises, with a balance of RMB865 million, and precisely issued RMB799.281 million to support targeted cuts to required reserve ratios for micro and small enterprises.

Bill discounting

Bill discounting refers to the financial service where customers apply to the bank for discounting of unexpired bank acceptance bills or commercial acceptance bills, and the bank pays the remaining amount to the customers after deducting the discounted interest from the par value. We only buy bank acceptance bills and commercial acceptance bills from corporate customers which meet our credit requirements, which is a form of providing short-term financing for such customers.

We also operate interbank discount and rediscount businesses in our financial markets business segment. Based on the said businesses, we can resell discounted bills to the PBoC or other commercial banks at a lower price, which will bring us extra current assets and additional revenue in interest spread.

As of December 31, 2018, our discounted bills amounted to RMB644.91 million, accounting for 2.07% of our total loans and advances to customers as of the same date. During the Reporting Period, the majority of our discounted bills were bank acceptance bills.

Corporate deposits

We offer our corporate customers RMB time and demand deposits. The RMB time deposits we offer to corporate customers have maturities ranging from three months to five years. We also offer negotiated deposit products that have customized interest rates and maturities and other terms. Besides, we provide call deposit products, which have higher interest rates than demand deposits and reserve certain flexibility of demand deposits (customers may send a notice in advance to draw the deposits). Our corporate deposit customers primarily include government agencies such as financial, transportation and social security institutions, public institutions, state-owned enterprises and large private corporations. As of December 31, 2018, the balance of our corporate customer deposits amounted to RMB29,679.3052 million, accounting for 56.66% of the total deposit balance.

Corporate products

We launched many customized products according to different demands of enterprises in different stages, in order to meet customers' different financing needs.

"An Xin Rong": We offer this product to micro and small enterprises, which lack working capital to replenish their business needs, but can provide assets for collateral. We do not analyse and judge the enterprises' solvency based on the financial statements and the first repayment source and focus on analysing their guarantee ability. For instance, we evaluate all types of collateral, pledges or guarantees, but only accept collateral backed by commercial properties in good locations with a good surrounding commercial atmosphere, pledges backed by government bonds, bank acceptance bills or other collateral with good liquidity, or guarantees provided by financing guarantee companies recognised by us. The maximum loan amount of this product does not exceed RMB5 million with a term of up to three years.

"Chuang Ke Dai": For young entrepreneurs who are in an early stage of their business without sufficient capital, we introduced an unsecured loan product with a low fixed interest rate. In consideration of the uncertainties inherent in their business operations, we only grant loans to young entrepreneurs recognized by the Communist Youth League of Luzhou with guarantees provided by qualified and well-recognized guarantee companies. The term of this loan product ranges from seven months to three years with a maximum loan amount of RMB300,000.

"Tian Tian Dai": In August 2017, to better serve the daily financing needs of micro and small enterprises, we introduced Tian Tian Dai, a revolving loan product with a term of up to one year and loan amount of up to RMB10 million. Customers can apply for withdrawal and repayment through our short message services (SMS) if the loan amount is RMB300,000 or less. Moreover, customers are entitled to three times of interest-free repayment without any reasons in seven days during the loan term.

"Zhi Rong Dai": It is a revolving product customized for smart terminal enterprises, featuring one-time credit extension, recycling and immediate repayment after borrowing. The maximum term of this product is one year with a maximum loan amount of RMB30 million.

"Rong e Dai": It is a pure credit product designed according to the "short-term, frequent and urgent" loan needs of micro and small enterprises which have no mortgage or guarantee to meet their financing needs. The maximum loan amount of this product is RMB1 million, with a maximum term of two years. This product features pure online application, simple procedures and quick examination and approval, which ensures "one-time effort" of micro and small enterprises for loan application.

"Ying Ji Dai": For micro and small enterprises which badly need funds to repay due bank loans, we launched "Ying Ji Dai" (a loan product which is only granted under the risk sharing mechanism) in May 2017. The applicants should seek the approval of municipal organs and guarantee from the guarantee companies designated by the government. Applicants from different industries may apply for different lines of credit. Generally, the term of this loan does not exceed one month.

Corporate banking customer base

The rapid growth of our corporate banking business is underpinned by our strong customer base. By studying the specific financial needs of corporate banking customers, we have launched a broad range of products and services with specific features targeting selected groups of customers, based on which, we are able to offer comprehensive financial services with customized features to corporate banking customers. In particular, by being a local city commercial bank, our comparatively shorter decision-making process enables us to offer a "one customer one scheme" service model for corporate customers. For certain large enterprise customers, we have also established a special customer information management system, which allows us to closely track our customers' and their partners' business transactions with our Bank, thereby enabling us to offer more comprehensive and effective financial consulting and advisory services for them.

As of December 31, 2018, the total number of our corporate banking customers (individual customers with personal business loans) was 9,068, representing an increase of 2,635 or 40.96% year-on-year.

Retail banking business

We provide our retail customers with a wide range of financial products and services, including deposits, loans, card services as well as wealth management and other intermediary businesses. We have a broad retail customer base.

As of December 31, 2018, we had 674,700 retail banking customers with total deposits of RMB22,229 million and total loans of RMB5,736 million.

We classify our retail customers into basic customers (with deposits balance of less than RMB500,000), value customers (with deposits balance of RMB500,000 (inclusive) to RMB1,000,000), high-end customers (with deposits balance of RMB1,000,000 (inclusive) to RMB3,000,000), and high-net-worth customers (with deposits balance exceeding RMB3,000,000). As of December 31, 2018, we had 1,958 high-end customers and 346 high-net-worth customers.

Retail deposits

The balance of retail deposits was RMB22,229 million, representing an increase of RMB6,199 million or 38.67% as compared to the end of the previous year. Particularly, the balance of demand deposits amounted to RMB2,790 million, representing an increase of RMB399 million or 16.69% as compared to the end of the previous year and accounting for 12.55% of the retail deposits

Retail loans

We provide our retail customers with personal business loans, personal consumption loans as well as personal residential and commercial mortgage loans. As of December 31, 2018, the total retail loans were RMB5,736 million.

Bank cards

As of December 31, 2018, the number of historical accumulated cards issued to retail banking customers was 852,900 and the stock of cards was 710,000, representing an increase of 147,900 or 26.31% as compared to the end of the previous year.

Wealth management

We provide our retail banking customers with Jin Gui Hua S type wealth management products based on their risk and return appetites. The funds raised from such wealth management products were mainly invested in products such as debt securities and money market instruments.

In 2018, the total amount of the wealth management products sold by us to our retail customers was RMB1,289 million. As of December 31, 2018, we had 4,246 customers for our wealth management products with a balance of RMB1,010 million and yields on wealth management products ranging from 4.2% to 5.38%.

Precious metal services

We provide our retail customers with precious metal products and services. We commenced sales agency service for precious metal from October 2018. As of December 31, 2018, our agency sales of precious metal amounted to RMB326,500.

Financial market business

In 2018, in the face of complex changes in the macro environment, market and regulatory environment, we fully analyzed the macroeconomic and financial regulatory situation, implemented a series of regulatory requirements to prevent and control financial risks and develop steadily.

Our financial market business mainly consists of money market transactions business, investment business and asset management business.

Money market transactions business

Our money market transactions include: interbank deposits, interbank lending, bond repurchase, bill rediscount, and issuance of interbank certificates of deposit. During the Reporting Period, we focused on the management and maintenance of interbank clients, maintained credit sustainability with them, and strived to increase their competitiveness while maintaining the diversification and dispersion of our counterparties.

1. Interbank Deposits

   At the end of the Reporting Period, the balance of deposits from banks and other financial institutions was RMB5,174 million, representing a year-on-year increase of RMB386 million or 8.05%, of which the balance of time deposits from banks was RMB5,010 million, representing a year-on-year increase of 6.8%, and the balances of demand deposits from banks and settlement accounts were RMB164 million, representing a year-on-year increase of 68.64%. The balance of deposits with other banks was RMB2,136 million, representing a year-on-year increase of RMB648 million or 43.54%, of which the balance of time deposits with other banks was RMB2,020 million, representing a year-on-year increase of 42.73%. The balances of demand deposits with other banks and settlement accounts were RMB116 million, representing a year-on-year increase of 59.10%.

2. Interbank lending

   At the end of the Reporting Period, the balance of our interbank placement was RMB1,720 million, representing a year-on-year increase of RMB850 million or 97.70%; the balance of interbank lending was RMB1,713 million, representing a year-on-year increase of RMB1,699 million or 116.28%. The main reasons were: first, the interbank lending transaction base was small at the end of 2017; second, in 2018, we adjusted our business structure and increased interbank lending transactions, resulting in a significant increase in interbank lending transactions at the end of the year.

3. Bond repurchase

   Up to the end of the Reporting Period in 2018, the balance of our positive buy-back was RMB1.681 billion, representing a year-on-year decrease of RMB4.725 billion or 73.77%; the balance of counter buy-back was RMB3.763 billion, representing a year-on-year decrease of RMB8.079 billion or 68.22%, mainly because we made dynamic adjustment to our business structure based on the net assets during the Reporting Period.

4. Bill rediscount

   At the end of the Reporting Period, we held RMB206 million of rediscounted bills, representing a year-on-year decrease of RMB1.719 billion or 89.32%, mainly due to the short term of the bills held and the low points at the end of the year.

5. Issuance of interbank certificates of deposit

At the end of the Reporting Period, the balance of our interbank certificates of deposit was RMB12.752 billion, representing an increase of RMB2.977 billion or 30.46% year-on-year, mainly because we reduced the amount of positive buy-back transactions, and used interbank certificate of deposit as one of the main tools for adjusting daily liquidity.

Investment business

1. Bond investment

The economy of U.S. has remained strong since 2018, but other major economies around the world are faltering. The internal and external factors, e.g. deleveraging, rigorous environmental protection policies and escalated trade tensions, have kept downward pressure on domestic economy. Despite the constraints of exchange rates and international capital flows, the state had to adopt a loose "self-centered" monetary policy. We predicted a moderately loose monetary policy earlier on, so we adjusted our strategy in a timely manner and improved the bond structure while expanding the scale of our bond investment, achieving good benefits.

As of the end of the Reporting Period, we adjusted the total amount and structure of bond investment according to the bond market conditions and our needs of asset allocation. At the end of the Reporting Period, our bond investment amounted to RMB14,100 million, representing a year-on-year increase of RMB5,035 million or 55.55%, among which, the balance of treasury bonds was RMB1,510 million, representing a year-on-year increase of RMB37 million or 2.48%; the balance of policy financial bonds was RMB6,767 million, representing a year-on-year increase of RMB1,963 million or 40.86%; and the balance of debt securities issued by local governments was RMB1,055 million, representing a year-on-year increase of RMB56 million or 5.58%; the balance of credit bonds was RMB4,522 million, representing a year-on-year increase of RMB4,354 million or 2,597.80%; the balance of bonds issued by commercial banks was RMB246 million, representing a year-on-year decrease of RMB1,374 million or 84.80%. Our bond investment increased significantly during the Reporting Period, mainly due to increased investment in policy financial bonds and credit bonds.

2. SPV investment

During the Reporting Period, we actively promoted business diversification, deepened cooperation with interbank organizations, revitalized existing assets, and made a good use of incremental investment. At the end of the Reporting Period, our SPV investment was RMB20.852 billion, including RMB1.693 billion for public offering monetary funds, RMB11.797 billion for trust plans, RMB7.332 billion for asset management plans, and RMB30 million for other investments. Our SPV investment increased by RMB673 million or 3.33% year on year, showing a slight increase amid stability, mainly due to our new investment in high-liquidity and low-risk public offering monetary funds, moderately increased investment in trust plans and asset management plans on a stock basis, and reduced investment in wealth management products of banks, during the Reporting Period.

Asset management business

During the Reporting Period, we issued open-end wealth management products to meet customers' financial needs for liquidity and security, contributing to the steady growth in the scale of wealth management business. At the end of the Reporting Period, the balance of our wealth management products was RMB1,010 million, representing a year-on-year increase of RMB703 million or 228.66%. During the Reporting Period, the amount of wealth management products issued was RMB1.289 billion, representing a year-on-year increase of RMB548 million or 74%. All wealth management products were non-principal protected with floating interests and achieved expected returns. At the end of the Reporting Period, we had 4,246 customers of wealth management products, all of whom were retail banking customers.

Protection of the interests of financial consumers

During the Reporting Period, we closely followed the new developments in regulation in our work on consumer rights protection. Starting with the basic work, we gave full play to the legal entity's institutional advantages, and optimized organizational structure, reinforced our awareness of responsibility, and strengthened supervision & inspection responsibilities by focusing on product and service design, and promotional and educational campaigns on financial knowledge, so the overall level of our work on consumer rights protection continued to improve.

1. *Establishing full-time organizations and strengthening organizational leadership*

   We set up a consumer rights protection committee under the Board of Directors to make unified plans and overall arrangements for the bank-wide work on consumer rights protection; and set up a consumer rights protection division under the Internal Control and Compliance Department to take up the specific work concerning consumer rights protection throughout the Bank. We continuously improved our organizational structure and effectively enhanced our consumer rights protection work.

2. *Optimizing institutional system and consolidating management foundation*

   By combing the consumer rights protection system, we established and improved a consumer protection system matching with our organizational structure and business development. During the Reporting Period, we organized and revised 28 systems related to consumer rights protection to provide system guarantee for the effective development of our work on consumer rights protection.

3. *Highlighting brand reputation and popularizing public education*

   Adhering to the concept of "customer-orientated" and "service-creating value", we provide "standard, rigorous, honest and reliable" financial services to customers to protect their rights and interests. During the Reporting Period, we continued "3.15 Consumer Rights Protection Day", "Prevention of Illegal Fund Raising", "Publicity on Prevention of Telecommunication Network Fraud", "Financial Literacy to Thousands of Families", "Financial Knowledge Popularization Month", anti-money laundering, anti-counterfeiting, personal credit and other public education and publicity campaigns.

4. Enhancing the concept of consumer protection and improving the level of consumer protection

We strictly abide by national laws and regulations, actively adapt to adjustments in regulatory policies, and strictly implement relevant industry standards and operating guidelines. During the Reporting Period, we continuously intensified the relevant staff's sense of responsibility, strengthened the concept of consumer protection, and made complaint handling flexible in product design, services, pricing management, agreement formulation, examination and approval, marketing and publicity, after-sales management, etc., to achieve whole-process, full-coverage and all-round management of consumer rights protection.

4. ACQUISITION AND DISPOSAL OF ASSETS AND BUSINESS MERGER

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

5. OTHER INFORMATION

5.1 Corporate Governance Code

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

Our Bank has established a relatively sound corporate governance structure in accordance with the Listing Rules. The composition of the Board and the special committees of the Board are in compliance with the Listing Rules. The Bank clearly splits the responsibilities of the Shareholders' general meeting, the Board of Directors, the Board of Supervisors and the senior management. Shareholders' general meeting is the highest authority of our Bank. The Board of Directors is accountable to the Shareholders' general meeting. Our Board has established six special committees which operate under the leadership of the Board and make recommendations on the Board's decisions. Our Board of Supervisors supervises the stable and sound operation of our Bank and the performance of duties by our Board of Directors and senior management. Under the leadership of the Board, our senior management is responsible for implementation of board resolutions and the daily operation and management of the Bank, and reports to the Board of Directors and the Board of Supervisors on a regular basis. The President of our Bank shall be appointed by the Board and is responsible for the daily overall operation of our Bank.

We have adopted the Corporate Governance Code (the "**Code**") set out in Appendix 14 to the Listing Rules, and have reached the requirements of the administrative measures and corporate governance for domestic commercial bank, and have established a good corporate governance system.

According to the Code, each of the Directors (including Directors with designated terms) shall retire by rotation at least once every three years. The three-year terms of office of the sixth session of our Board of Directors expired on December 23, 2018. In view of the fact that the Bank has just completed its H Shares Listing, to ensure the stability of the work of the Board, the relevant regulatory authority has agreed the Bank to postpone the general election of the sixth session of the Board of Directors. The Board has decided and proposed to re-elect its Directors at the 2018 AGM, and will publish an announcement and a circular containing particulars of the candidates for new members of the Board of Directors as soon as practicable. To the best knowledge and belief of our Board of Directors, except as disclosed above, we have strictly complied with the principles and code provisions as well as some of the recommended best practices set out in the Code during the Reporting Period.

We are committed to maintaining a high standard of corporate governance. Our Bank will continue to enhance its corporate governance to ensure compliance with the Code and meeting expectations of shareholders and potential investors.

5.2 Our Directors, Supervisors and Senior Management

As at the date of this announcement, the composition of our Board of Directors, Board of Supervisors and senior management of the Bank is as follows:

Our Board of Directors consists of 12 Directors, including three executive Directors, namely, Mr. YOU Jiang, the Chairman of the Board of Directors, Mr. XU Xianzhong, the president, and Mr. LIU Shirong, the vice president and secretary to the Board of Directors; four non-executive Directors, namely, Ms. XU Yan, Mr. XIONG Guoming, Mr. LIU Qi and Mr. DAI Zhiwei; and five independent non-executive Directors, namely, Mr. LIU Xiaoyu, Mr. GU Mingan, Mr. HUANG Yongqing, Mr. YE Changqing and Mr. TANG Baoqi.

Our Board of Supervisors consists of five Supervisors, including one shareholder Supervisor, namely, Ms. YUAN Shihong, two employee representative Supervisors, namely, Ms. LIU Yongli and Mr. CHEN Yong and two external Supervisors, namely, Ms. HUANG Ping and Mr. DUAN Xuebin.

Our senior management consists of eight members, namely, Mr. XU Xianzhong, Ms. XIA Yilun, Mr. LIU Shirong, Ms. XUE Xiaoqin, whose former name is XUE Defang, Mr. CHENG Anhua, Mr. YANG Bing, whose former name is YANG Bin, Mr. AI Yong and Mr. HU Jia.

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

Mr. YE Changqing and Mr. TANG Baoqi were approved as independent non-executive Directors of our Bank at the Shareholders' general meeting on May 30, 2018, and such appointments took effect on December 17, 2018.

There was no change in the Supervisors during the Reporting Period.

Mr. HU Jia was appointed as the assistant to the president of our Bank on August 23, 2018, with effect from the same date.

5.4 Securities Transactions by Directors and Supervisors

Our Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its code for regulating securities transactions by Directors and Supervisors of the Bank. Having made specified enquiry with all Directors and Supervisors of the Bank, our Directors and Supervisors confirmed that they have been in compliance with the Model Code throughout the Reporting Period.

5.5 Profits and Dividends

Our revenue for the year ended December 31, 2018 and our financial position as of the same date are set out in the section headed "Annual Financial Statements" in the annual results announcement.

Our Board of Directors has proposed to distribute final cash dividends for the year ended December 31, 2018 at RMB0.15 (tax inclusive) per share to all shareholders in an aggregate amount of RMB339.72 million (tax inclusive). The dividend distribution plan will be proposed at the annual general meeting of 2018 for consideration.

If the proposal is approved at the annual general meeting of 2018 ("**2018 AGM**"), the dividends will be distributed to holders of domestic Shares and holders of H Shares whose names appear on the register of members of our Bank as at Thursday, June 6, 2019. The proposed dividends are denominated in Renminbi and will be distributed to holders of domestic Shares and holders of H Shares in Renminbi and Hong Kong dollars, respectively. The applicable exchange rate for calculating dividends to be distributed in Hong Kong dollars shall be the average of the central parity rates of RMB to Hong Kong dollars used by the interbank foreign exchange market as published by the PBoC of the five working days preceding and inclusive of the date of declaration of such dividends at the annual general meeting of 2018. The registration of transfers of domestic Shares and H Shares will be closed from Saturday, June 1, 2019 to Thursday, June 6, 2019 (both days inclusive). In order to be entitled to the final dividend for 2018, holders of H Shares of the Bank who have not registered the related transfer documents are required to lodge the transfer documents accompanied by the relevant share certificates with our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 4:30 p.m. on Friday, May 31, 2019.

Our Board of Directors has determined to distribute the final dividends for 2018 on or before Friday, July 26, 2019. If there is any change to the expected distribution date, an announcement regarding such change will be published.

5.6 Tax on Dividends of Ordinary Shares

(1) For holders of domestic Shares

Our corporate holders of domestic Shares shall handle their income tax by themselves. Pursuant to the relevant provisions of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》), our Bank shall withhold and pay an individual income tax at a rate of 20% for individual shareholders whose names appear on the domestic share register of members as at June 6, 2019.

(2) For holders of H Shares

Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and the relevant implementation regulations effective on January 1, 2008, our Bank shall withhold and pay an enterprise income tax at a rate of 10% for non-resident enterprise shareholders listed on the H Share register of members as at June 6, 2019. Pursuant to the Notice of Taxation on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of the Document Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》) issued by the SAT on June 28, 2011, overseas resident individual shareholders's receipt of dividends from the shares issued in Hong Kong by domestic non-foreign-invested enterprises is subject to withholding of individual income tax by the payer of the income according to laws; however, overseas resident individual shareholders holding shares issued in Hong Kong by domestic non-foreign-invested enterprises can enjoy relevant preferential tax treatments according to the tax treaties entered into by the countries they reside in with the PRC and the tax arrangements between mainland China and Hong Kong (Macau).

In accordance with the above tax regulations, we generally withhold individual income tax on dividends at a rate of 10% for the individual holders of H Shares, unless otherwise provided in the relevant tax regulations and tax treaties where the Bank shall go through the specific procedures under taxation and administration requirements of tax authorities.

5.7 2018 AGM and Closure of the Registration of Transfers of Shares

The 2018 AGM is scheduled to be held on Tuesday, May 28, 2019. For the purpose of determining the list of shareholders who are entitled to attend and vote at the 2018 AGM, the registration of transfers of our H Shares will be closed from Saturday, April 27, 2019 to Tuesday, May 28, 2019 (both days inclusive). In order to attend and vote at the 2018 AGM, the holders of H Shares of the Bank shall lodge all the transfer documents accompanied by the relevant share certificates with our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Friday, April 26, 2019.

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

During the Reporting Period, the Bank issued 545,740,000 H Shares which were listed on the main board of the Hong Kong Stock Exchange on December 17, 2018.

Save as disclosed above, the Bank had not purchased, sold or redeemed any listed securities of the Bank during the Reporting Period.

5.9 Review of Annual Results

The annual financial statements of the Bank for the year ended December 31, 2018, which were prepared in accordance with IFRSs promulgated by IASB, have been audited by PricewaterhouseCoopers in accordance with International Standards on Auditing.

The Board of Directors and its audit committee have reviewed and approved the annual results of the Bank.

5.10 Use of Proceeds

Our proceeds from the issuance of H Shares have been fully utilized for the intended use as disclosed in the prospectus of our Bank. We have used the net proceeds from the Global Offering (after deduction of underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering) to strengthen our capital base to support the ongoing growth of our business.

5.11 Subsequent Event

As disclosed in the announcement of the Bank dated January 9, 2019, the Sole Representative (as defined in the prospectus of H Shares Global Offering of the Bank) (on behalf of the International Underwriters) fully exercised the Over-allotment Option, and the Bank further completed the issuance of 81,860,000 H Shares. The total share capital of the Bank after the over-allotment was RMB2,264,793,385, representing 2,264,793,385 Shares with a nominal value of RMB1 each, including 627,600,000 H Shares.

As disclosed in the announcement of the Bank dated March 6, 2019, the Chinese name of the Bank will be changed from "泸州市商业银行股份有限公司" to "泸州银行股份有限公司", and the English name of the Bank will be changed from "Luzhou City Commercial Bank Co., Ltd." to "Luzhou Bank Co., Ltd.". The change of name is subject to the fulfillment of certain conditions, including the passing of special resolutions by our Shareholders at the annual general meeting to amend the Articles of the Bank.

Save for the above, the Bank had no other significant event subsequent to the Reporting Period.

6. ANNUAL FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

(All amounts expressed in thousands of RMB unless otherwise stated)

	Year ended 31 December	
	2018	**2017**
Interest income	3,998,714	3,328,474
Interest expense	(2,226,316)	(1,754,139)
Net interest income	1,772,398	1,574,335
Fee and commission income	9,245	8,110
Fee and commission expense	(7,377)	(10,000)
Net fee and commission income/(expense)	1,868	(1,890)
Net gains on trading activities	24,111	–
Net gains arising from financial investments	134,775	97,784
Other operating income	936	9,727
Operating income	1,934,088	1,679,956
Operating expenses	(686,928)	(543,168)
Expected credit losses/Impairment losses	(396,810)	(324,846)
Operating profit	850,350	811,942
Share of profit of an associate	3,640	2,544
Profit before income tax	853,990	814,486
Income tax expense	(195,683)	(195,783)
Net profit attributable to shareholders of the Bank	658,307	618,703

STATEMENT OF COMPREHENSIVE INCOME (continued)
(All amounts expressed in thousands of RMB unless otherwise stated)

	Year ended 31 December	
	2018	**2017**
Other comprehensive income/(losses)		
Items that may be reclassified subsequently to profit or loss:		
Fair value changes on available-for-sale financial assets	N/A	(314,675)
Fair value changes on financial assets at fair value through other comprehensive income	121,230	N/A
Expected credit losses of financial assets at fair value through other comprehensive income	13,647	N/A
Less: Related income tax impact	(33,718)	78,669
Subtotal	101,159	(236,006)
Total comprehensive income attributable to the shareholders of the Bank	759,466	382,697
Earnings per share for profit attributable to the shareholders of the Bank (expressed in RMB per share) basic and diluted	0.40	0.38

STATEMENT OF FINANCIAL POSITION

(All amounts expressed in thousands of RMB unless otherwise stated)

	As at 31 December	
	2018	**2017**
ASSETS		
Cash and balances with central bank	8,373,038	8,145,703
Financial assets held under resale agreements, due from other banks and financial institutions	7,633,381	13,344,757
Customer loans	30,486,354	18,833,833
Financial investments – credit related financial assets	5,821,602	8,279,379
Financial investments – fair value through profit or loss	1,841,322	N/A
Financial investments – fair value through other comprehensive income	5,867,342	N/A
Financial investments – Available-for-sale ('AFS')	N/A	11,376,611
Financial investments – amortized cost	21,395,762	N/A
Financial investments – investments classified as receivables	N/A	9,340,174
Investment in an associate	36,651	33,011
Property, plant and equipment	675,358	614,772
Deferred income tax assets	186,871	244,306
Other assets	232,134	666,890
Total assets	**82,549,815**	**70,879,436**

STATEMENT OF FINANCIAL POSITION (continued)
(All amounts expressed in thousands of RMB unless otherwise stated)

	As at 31 December	
	2018	2017
LIABILITIES		
Borrowings from central bank	865,000	590,000
Financial liabilities sold under repurchase agreements, due to other banks and financial institutions	8,675,639	12,063,909
Customer deposits	52,385,604	42,145,297
Debt securities issued	13,800,494	10,775,243
Current tax liabilities	135,457	28,768
Other liabilities	320,835	940,504
Total liabilities	76,183,029	66,543,721
EQUITY		
Equity attributable to shareholders of the Bank		
Share capital	2,182,933	1,637,193
Share premium	2,094,444	1,174,606
Other reserves	1,246,558	738,689
Retained earnings	842,851	785,227
Total equity	6,366,786	4,335,715
Total liabilities and equity	82,549,815	70,879,436

STATEMENT OF CHANGES IN EQUITY

(All amounts expressed in thousands of RMB unless otherwise stated)

	Equity attributable to shareholders of the Bank							
			Other reserves					
	Share capital	**Share premium**	**Surplus reserve**	**General reserve**	**Revaluation reserve**	**Subtotal**	**Retained earnings**	**Total**
Balance at 1 January 2017	1,448,844	1,174,606	208,639	409,303	12,399	630,341	753,623	4,007,414
Net profit for the year	–	–	–	–	–	–	618,703	618,703
Other comprehensive losses	–	–	–	–	(236,006)	(236,006)	–	(236,006)
Total comprehensive income	–	–	–	–	(236,006)	(236,006)	618,703	382,697
Transfer to surplus reserve	–	–	61,870	–	–	61,870	(61,870)	–
Transfer to general reserve	–	–	–	282,484	–	282,484	(282,484)	–
Cash dividends	–	–	–	–	–	–	(54,396)	(54,396)
Share dividends	188,349	–	–	–	–	–	(188,349)	–
Balance at 31 December 2017	1,637,193	1,174,606	270,509	691,787	(223,607)	738,689	785,227	4,335,715
Balance at 1 January 2018	1,637,193	1,174,606	270,509	691,787	(223,607)	738,689	785,227	4,335,715
Effects of applying IFRS 9	–	–	–	–	185,117	185,117	39,816	224,933
Balance restated at 1 January 2018	1,637,193	1,174,606	270,509	691,787	(38,490)	923,806	825,043	4,560,648
Net profit for the year	–	–	–	–	–	–	658,307	658,307
Other comprehensive income	–	–	–	–	101,159	101,159	–	101,159
Total comprehensive income	–	–	–	–	101,159	101,159	658,307	759,466
Issue of shares	545,740	919,838	–	–	–	–	–	1,465,578
Transfer to surplus reserve	–	–	65,831	–	–	65,831	(65,831)	–
Transfer to general reserve	–	–	–	155,762	–	155,762	(155,762)	–
Cash dividends	–	–	–	–	–	–	(418,906)	(418,906)
Balance at 31 December 2018	**2,182,933**	**2,094,444**	**336,340**	**847,549**	**62,669**	**1,246,558**	**842,851**	**6,366,786**

STATEMENT OF CASH FLOWS
(All amounts expressed in thousands of RMB unless otherwise stated)

	Year ended 31 December 2018	2017
Cash flows from operating activities:		
Profit before income tax	853,990	814,486
Adjustments:		
Depreciation and amortisation	58,274	41,991
Expected credit losses/Impairment losses on customer loans	312,370	216,528
Expected credit losses/Impairment losses on other assets	84,440	108,318
Net (losses)/gains on disposal of property, plant and equipment and foreclosed assets	(8,888)	296
Net gains arising from financial investments	(134,775)	(97,784)
Changes in fair value of financial assets fair value through profit or loss	(43,400)	–
Interest income from financial instruments	(2,069,015)	(2,234,629)
Interest expense on debt securities	580,600	405,912
Net change in operating assets:		
Net decrease/(increase) in financial assets held under resale agreements, due from banks and other financial institutions	7,542,717	(9,720,175)
Net increase in customer loans	(11,772,000)	(4,901,045)
Net decrease/(increase) in other operating assets	68,433	(392,973)
Net change in operating liabilities:		
Net increase in due to central bank	275,000	340,000
Net decrease in financial assets sold under repurchase agreements, due to banks and other financial institutions	(3,493,481)	(327,829)
Net increase in customer deposits	9,721,622	11,126,540
Net increase in other operating liabilities	145,554	248,798
Income tax paid	(209,419)	(262,591)
Net cash generated from/(used in) operating activities	1,638,644	(6,366,321)

STATEMENT OF CASH FLOWS (continued)
(All amounts expressed in thousands of RMB unless otherwise stated)

	Year ended 31 December 2018	2017
Cash flows from investing activities:		
Proceeds from disposal of property and equipment, and other long-term assets	5,732	36,891
Purchase of property and equipment, and other long-term assets	(195,554)	(130,696)
Interest income arising from financial investment securities	2,266,764	2,362,545
Purchase of investment securities	(24,682,230)	(36,309,289)
Proceeds from sale and redemption of investments	19,295,639	33,587,094
Net cash used in investing activities	(3,309,649)	(453,455)
Cash flows from financing activities:		
Proceeds from issuance of shares	1,540,006	–
Proceeds from issuance of debt securities	21,390,000	11,956,223
Repayment of debt securities upon maturity	(18,413,119)	(6,082,382)
Interest paid on debt securities	(580,600)	(405,912)
Dividends paid to shareholders	(415,918)	(45,567)
Others paid for financing activities	(74,429)	–
Net cash generated from financing activities	3,445,940	5,422,362
Impact of exchange rate fluctuation on cash and cash equivalents	(9,850)	–
Net increase/(decrease) in cash and cash equivalents	1,765,085	(1,397,414)
Cash and cash equivalents at the beginning of the year	3,159,660	4,557,074
Cash and cash equivalents at the end of the year	4,924,745	3,159,660

7. NOTES TO THE FINANCIAL STATEMENTS

(All amounts expressed in thousands of RMB unless otherwise stated)

7.1 BASIS OF PREPARATION

The financial statements of the Bank have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards board (the "**IASB**").

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies.

The Bank's structured entites are the Bank's only consolidated subsidiaries and are already measured according to accounting policies applicable to financial instruments. So there is no difference between the Bank's consolidated financial statements and its standalone financial statements.

(a) The adoption of new and revised IFRS

New and revised IFRSs effective from 2018 applied by the Bank

Amendments to IFRS 2	Classification and measurement of share-based payment transactions
Amendments to IAS 40	Transfer of investment property
Amendments to IAS 28	IASB Annual Improvements (2014-2016 cycle)
IFRS 15	Revenue from contracts with customers
IFRIC 22	Foreign currency transactions and advance consideration
IFRS 9	Financial instruments

The adoption of the revised International Financial Reporting Standards, with the exception of International Financial Report Standard 9 'Financial instruments' ('**IFRS 9**'), have no significant impact on the Bank in 2018.

International Financial Reporting Standard 2 (Revised)

On 20 June 2016, the International Accounting Standards Board issued a revised version of International Financial Reporting Standards No. 2 – Share-based Payments, which provides guidance for three categories and measures.

This revision provides additional guidance for cash-settled share-based payments and accounting treatment that includes incentives with net settlement characteristics due to withholding of personal income tax.

The revised edition clarifies the measurement basis of cash settlement incentives and the accounting treatment of the change from cash settlement to equity settlement. At the same time, an exception was added to the revised edition, requiring that rewards with net settlement.

International Accounting Standards 40 (Revised)

On 8 December, 2016, IASB issued an amendment to IAS 40 for investment real estate. The amendment makes it clear that access or transfer can be made only when there is evidence that the use of investment real estate has changed. At the same time, the revision clarifies that a series of examples listed in the guidelines are not exhaustive. These examples include not only completed real estate conversion, but also increased real estate conversion under construction and development. The adoption of the amendment has not had a significant impact on the Bank's financial statements.

International Accounting Standards 28 (Revised)

The annual improvement of IFRS (2014-2016 cycle) includes the revision of IAS 28 Accounting for joint venture investments. The revision clarifies the choice of measuring joint venture investments or joint venture investments by means of fair value measurement and changes in current profits and losses. Each joint venture investment or joint venture investment should be considered separately at the time of initial confirmation. The adoption of the amendment has not had a significant impact on the Bank's financial statements.

International Financial Reporting Standards 15

IFRS 15 establishes a comprehensive framework for determining when and how much revenue should be recognized through a five-step approach. The core principle is that the principal part should recognize revenue to reflect the amount of goods or services promised to the customer and reflect the consideration due to the principal part's expectation of exchanging such goods or services. It abandons the income recognition model based on the "income process" and turns to the "asset-liability" model based on the control transfer. IFRS 15 provides specific guidance on capitalization and licensing arrangements for contract costs. It also includes a set of disclosure requirements concerning the nature, amount, time and uncertainty of revenue and cash flow of customer contracts. The adoption of the amendment has not had a significant impact on the Bank's financial statements.

International Financial Reporting Interpretation 22

The International Accounting Standards Board issued IFRIC No. 22 on the prepayment/receipt consideration of foreign currency transactions to clarify that in order to determine the exchange rate for initial confirmation of related projects, the transaction date should be the date when the non-monetary assets or liabilities arising from the initial confirmation of prepayment/receipt consideration by the main body. The adoption of the amendment has not had a significant impact on the Bank's financial statements.

Significant Accounting Policy Change

International Financial Reporting Standards 9 "Financial Instruments"

The Bank has adopted International Financial Reporting Standard 9 "Financial Instruments"

IFRS 9 was issued by the IASB in July 2014 with a date of transition of 1 January 2018 to replace International Accounting Standard 39 ("**IAS 39**"), which resulted in adjustments to the amounts previously recognised on 1 January 2018. The Bank did not early adopt IFRS 9.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current year. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current year. The comparative year notes disclosures are consistent with those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets for the Bank. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

7.2 NET INTEREST INCOME

	Year ended 31 December 2018	2017
Interest income		
Balances with central bank	114,787	85,939
Financial assets held under resale agreements, due from other banks and financial institutions	344,017	401,372
Customer loans	1,731,365	1,045,916
Financial investments – credit related financial assets	557,356	671,720
Financial investments	1,251,189	1,123,527
Total	3,998,714	3,328,474
Inside: interest income generated from impaired financial assets	5,568	3,995
Interest expense		
Due to central bank	10,219	19,700
Financial assets sold under repurchase agreements, due to other banks and financial institutions	355,477	413,121
Customer deposits	1,280,020	915,406
Debt securities issued	580,600	405,912
Total	2,226,316	1,754,139
Net interest income	1,772,398	1,574,335

7.3 NET FEE AND COMMISSION INCOME/(EXPENSE)

	Year ended 31 December 2018	2017
Fee and commission income/(expense)		
Commission income from settlement and agency services	1,703	2,328
Commission income from bank card services	2,270	2,385
Commission income from custodian service	2,036	1,175
Commission income from credit commitments	2,513	1,320
Commission income from wealth management agency service	120	888
Commission income investment bank	514	–
Other commission income	89	14
	9,245	8,110
Fee and commission expense	(7,377)	(10,000)
Net fee and commission income/(expense)	1,868	(1,890)

7.4 NET GAINS ON TRADING ACTIVITIES

	Year ended 31 December 2018	2017
Monetary fund	53,111	–
Foreign currency deposit	(19,289)	–
Debt securities	2,858	–
Equity investment	(12,569)	–
Total	24,111	–

7.5 NET GAINS ARISING FROM FINANCIAL INVESTMENTS

	Year ended 31 December 2018	2017
Net gains/(losses) arising from de-recognition of available-for-sale financial assets	N/A	97,784
Net gains/(losses) arising from de-recognition of FVOCI	60,333	N/A
Net gains/(losses) arising from de-recognition of financial investments – fair value through profit or loss	74,442	N/A
Total	134,775	97,784

7.6 OTHER OPERATING INCOME

	Year ended 31 December 2018	2017
Net (loss)/gain on disposal of foreclosed assets	(8,999)	130
Net (loss)/gain on disposal of fixed assets	111	(296)
Incentive and subsidy funds	3,298	2,510
Penalty of early loan repayment	2,422	302
Rental income from investment properties	3,876	3,653
Other miscellaneous income	228	3,428
Total	936	9,727

7.7 OPERATING EXPENSES

	Year ended 31 December 2018	2017
Staff costs (i)	399,518	307,902
Business and administrative expenses	162,158	136,971
Professional fees	12,522	11,229
Auditor's remuneration	2,700	875
Rental fees	21,080	18,312
Depreciation and amortization	58,274	41,707
Tax and surcharges	18,947	7,794
Expenditures on public welfare donations	3,862	9,544
Other non-operating expenses	1,448	2,717
Other business expenses	6,419	6,117
Total	686,928	543,168

(i) Staff costs

	Year ended 31 December 2018	2017
Salaries and bonuses	293,398	225,707
Pension cost – defined contribution plan	21,724	16,192
Other social security and benefit costs	25,841	19,215
Housing benefits and subsidies	15,702	11,426
Corporate annuity	14,918	14,053
Staff benefits	19,594	15,198
Staff education expenses	8,341	6,111
Total	399,518	307,902

7.8 IMPAIRMENT LOSSES/EXPECTED CREDIT LOSSES

	Year ended 31 December	
	2018	**2017**
Customer loans impairment losses		
– Collectively assessed	N/A	134,605
– Individually assessed	N/A	81,923
ECL for customer loans at amortized cost	331,720	N/A
ECL for customer loans – FVOCI	(31,549)	N/A
ECL for financial investments – credit related financial assets/Impairment losses	(38,741)	29,839
ECL for other financial investment/impairment losses	101,389	76,599
ECL for guarantee commitment	12,200	N/A
Other impairment losses	21,791	1,880
Total	396,810	324,846

7.9 INCOME TAX EXPENSE

	Year ended 31 December	
	2018	**2017**
Current income tax	247,061	262,591
Deferred income tax	(51,378)	(66,808)
Total	195,683	195,783

Current income tax is calculated the statutory tax rate of 25% based on the taxable income of estimated assessable profit of the Bank for the respective year as stipulated in PRC tax laws.

The difference between the actual income tax charge in the profit or loss and the amounts which would result from applying the enacted tax rate 25% (2017: 25%) to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2018	**2017**
Profit before income tax	853,990	814,486
Tax calculated at a tax rate of 25%	213,497	203,621
Tax effect arising from non-taxable income *(a)*	(24,045)	(16,902)
Tax effect of expenses that are not deductible for tax purposes *(b)*	6,231	9,064
Income tax expense	195,683	195,783

(a) The Bank's non-taxable income mainly represents interest income arising from treasury bonds, which is non-taxable in accordance with PRC tax laws.

(b) The Bank's expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses etc., which exceed the tax deduction limits pursuant to PRC Laws.

7.10 BASIC AND DILUTED EARNINGS PER SHARE

(a) Basic earnings per share are calculated by dividing the net profit for the year attributable to shareholders of the Bank by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2018	**2017**
Net profit attributable to shareholders of the Bank (RMB'000)	658,307	618,703
Weighted average number of ordinary shares issued ('000)	1,659,621	1,637,193
Basic earnings per share (in RMB)	0.40	0.38

According to the resolutions determined in annual meeting of the Shareholders on 21 July 2017, the Bank distributed 1.3 shares per 10 shares as shares dividends in the profit distribution of 2016. The total share dividends amounted to RMB188,349,545 and the ordinary shares of the Bank reached 1,637,193,385 shares after the distribution.

(b) Diluted earnings per share

For the years ended 31 December 2017 and 2018, there was no potential diluted ordinary share, so the diluted earnings per share was the same as the basic earnings per share.

7.11 FINANCIAL INVESTMENTS – CREDIT RELATED FINANCIAL ASSETS

The Bank's credit related financial assets are corporate loans issued through consolidated structured entities (trust and asset management plans).

	As at 31 December	
	2018	**2017**
Financial investments		
– credit related financial assets		
– Trust plans[1]	3,620,100	5,371,050
– Asset management plans[2]	2,275,900	3,033,000
Less: Impairment allowances	N/A	(124,671)
Less: ECL allowance	(88,410)	N/A
Accrued interest	14,012	N/A
Total	5,821,602	8,279,379

(1) Trust plans

	As at 31 December	
	2018	**2017**
Pledged	807,250	1,021,000
Collateralised	200,000	1,167,000
Guaranteed	1,449,850	1,740,050
Unsecured	1,163,000	1,443,000
Total	3,620,100	5,371,050

(2) Asset management plans

	As at 31 December 2018	2017
Pledged	1,710,900	1,663,000
Collateralised	475,000	1,200,000
Guaranteed	–	80,000
Unsecured	90,000	90,000
Total	2,275,900	3,033,000

The movement of ECL of financial investments- credit related financial assets is as follows:

	Year ended 31 December 2018 Financial investments – credit related financial assets 12-month ECL for stage 1
As at 1 January 2018	**127,150**
Provision for ECL	**–**
Reversal of ECL allowances	**(38,740)**
As at 31 December 2018	**88,410**

	Year ended 31 December 2017 Financial investments – credit related financial assets
As at 1 January 2017	94,832
Provision for ECL	29,839
Reversal of ECL allowances	–
As at 31 December 2017	124,671

7.12 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2018	2017
Financial assets – fair value through profit or loss		
– Equity securities	45,352	N/A
– Funds	1,693,111	N/A
– Debt securities	102,859	N/A
Total	1,841,322	N/A

	As at 31 December 2018	2017
Financial investments – fair value through profit or loss		
– Listed in Hong Kong	–	N/A
– Listed outside Hong Kong	117,214	N/A
– Unlisted	1,724,108	N/A
Total	1,841,322	N/A

7.13 FINANCIAL INVESTMENTS – FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December 2018	2017
Financial investments – FVOCI		
– Debt securities	5,747,169	N/A
Interest receivable	120,173	N/A
Total	5,867,342	N/A

	As at 31 December 2018	2017
Financial investments – FVOCI		
– Listed in Hong Kong	–	N/A
– Listed outside Hong Kong	2,383,025	N/A
– Unlisted	3,484,317	N/A
Total	5,867,342	N/A

Debt securities are analysed by issuer as follows:

	As at 31 December 2018	2017
Government	263,903	N/A
Policy banks	3,157,177	N/A
Commercial banks	–	N/A
Corporate entities	2,326,089	N/A
Total	5,747,169	N/A

The movement of ECL allowance of financial investments-FVOCI is as follows:

	As at 31 December 2018 Financial investments-FVOCI 12-month ECL for stage 1
As at 1 January 2018	**1,110**
Provision for ECL	**4,825**
Reversal of ECL allowances	**–**
As at 31 December 2018	**5,935**

7.14 FINANCIAL INVESTMENTS – AVAILABLE-FOR-SALE

	As at 31 December	
	2018	2017
AFS-equity securities		
– Listed in Hongkong	N/A	–
– Listed outside Hongkong	N/A	–
– Unlisted equity investments	N/A	996
– Wealth management products	N/A	2,310,840
AFS-debt securities		
– Listed outside Hongkong	N/A	9,064,775
Total	N/A	11,376,611

Investment securities are analysed by issuer as follows:

	As at 31 December	
	2018	2017
Policy banks	N/A	4,803,865
Commercial banks	N/A	3,931,056
Government	N/A	2,473,090
Corporate entities	N/A	167,604
Equity investment at cost	N/A	996
Total	N/A	11,376,611

7.15 FINANCIAL INVESTMENTS – AMORTIZED COST

	As at 31 December	
	2018	2017
Financial investments		
– amortized cost		
– Industry funds (Senior tranche)	5,222,000	N/A
– Unlisted corporate bonds	5,925,080	N/A
– Trust plans[(1)]	2,086,000	N/A
– Debt securities[(3)]	7,970,752	N/A
Subtotal	21,203,832	N/A
Less: ECL allowance	(213,163)	N/A
Interest receivable	405,093	N/A
Total	21,395,762	N/A

(1) Debt securities

	As at 31 December	
	2018	2017
Government	2,266,244	N/A
Policy banks	3,441,909	N/A
Commercial banks	246,393	N/A
Corporate entities	2,016,206	N/A
Total	7,970,752	N/A

	As at 31 December 2018	2017
Financial investments – amortized cost		
– Listed in Hong Kong	–	N/A
– Listed outside Hong Kong	995,696	N/A
– Unlisted	20,400,066	N/A
Total	21,395,762	N/A

The movement of ECL allowance of financial investments-amortized cost is as follows:

	12 months ended 31 December 2018 Financial investments-amortized cost 12-month ECL for stage 1
As at 1 January 2018	128,532
Provision for ECL	84,631
As at 31 December 2018	213,163

7.16 FINANCIAL INVESTMENTS – INVESTMENTS CLASSIFIED AS RECEIVABLES

	As at 31 December 2018	2017
Investment securities – investments classified as receivables		
Debt securities – at amortized cost		
Unlisted		
– Trust schemes[(1)]	N/A	4,478,520
– Asset management plan[(2)]	N/A	2,100,750
– Wealth management products purchased from financial institutions[(3)]	N/A	2,885,000
Impairment	N/A	(124,096)
Total	N/A	9,340,174

The movement of impairment of financial investments-investments classified as receivables is as follows:

	Year ended 31 December 2017 Financial investments-investments classified as receivables
As at 1 January 2017	47,475
Provision for impairment	76,621
Reversal of impairment allowances	–
As at 31 December 2017	124,096

7.17 INVESTMENT IN AN ASSOCIATE

	As at 31 December	
	2018	2017
Balance at the beginning of the year	33,011	30,467
Share of profit after tax	3,640	2,544
Balance at the end of the year	36,651	33,011

The Bank invested in Luxian Yuantong Rural Bank Co., Ltd. on 8 April 2009. The registered capital of the invested enterprise was RMB30 million, and the Bank invested RMB9 million, accounting for 30%.

Investment in associates of the Bank are unlisted corporation's ordinary shares. assets, liabilities, revenue and profit of associates are as follows:

	Place of incorporation	Assets	Liabilities	Revenue	Profit	Interest held
31 December 2018						
Luxian Yuantong Rural Bank Co., Ltd. （瀘縣元通村鎮銀行）	PRC	874,169	751,998	29,294	12,232	30%
31 December 2017						
Luxian Yuantong Rural Bank Co., Ltd. （瀘縣元通村鎮銀行）	PRC	705,085	595,049	24,922	9,165	30%

7.18 DIVIDENDS

	Year ended 31 December	
	2018	2017
Dividend declared during the year	418,906	54,396
Dividend per share (in RMB)(Based on prior year shares)	0.12	0.04

Under the PRC Company Law and the Bank's Articles of Association, the net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowances for the following:

(i) Making up prior year's cumulative losses, if any;

(ii) Allocations to the non-distributable statutory accumulation reserve of 10% of the net profit of the Bank.

In accordance with relevant regulations, after the Bank's initial public offering, the net profit after tax of the Bank for the purpose of profit distribution is deemed to be the lower of (i) the retained profits determined in accordance with the China Accounting Standards and (ii) the retained profit determined in accordance with IFRS.

According to the "Plan for profit distribution of Luzhou City Commercial Bank Co. Ltd in 2017" approved in the annual general meeting for year 2017 on 30 May 2018, the Bank had distributed cash dividends RMB196,464 thousand (including tax) by 31 December 2017 to its shareholders of record, which is calculated by the criterion of RMB0.12 dividend per share.

Besides, the Bank distributed additional cash dividends in total amount of RMB222,442 thousand from the retained earnings brought forward from 2015 and 2016 to its registered shareholders on 31 December 2016, according to the resolution approved in the 2017 annual general meeting on 30 May 2018 (The new shareholders registered in 2016 are entitled to this distribution on a pro rata basis according to the days of share holding in 2016).

On 26 March 2019, the board of the Bank proposed the distribution of cash dividends of RMB339,719 thousand (including tax) to its shareholders, which is calculated at RMB0.15 dividend per share based on the total 2,264,793,385 share capital. The 2018 annual dividend distribution plan has yet to be approved by the shareholders at the annual general meeting.

7.19 FINANCIAL GUARANTEES AND CREDIT RELATED COMMITMENTS, OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Financial guarantees and credit related commitments

The following tables indicate the contractual amounts of the Bank's financial guarantees and credit related commitments which the Bank commits to extend to customers:

	As at 31 December	
	2018	**2017**
Bank acceptance	1,585,988	1,238,938
Guarantees	1,176,130	573,240
Total	2,762,118	1,812,178

The credit risk weighted amount refers to the amount calculated in accordance with the formula promulgated by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and credit commitments.

Capital expenditure commitments

	As at 31 December	
	2018	**2017**
Contracted but not provided for:		
– Capital expenditure commitments for buildings	3,371	3,833
– Acquisition of IT system	83,725	38,697
Total	87,096	42,530

Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under irrevocable operating leases in respect of buildings are as follows:

	As at 31 December	
	2018	**2017**
Within 1 year	11,824	10,994
Between 1 to 5 years	24,917	30,510
Later than 5 years	2,800	3,490
Total	39,541	44,994

Legal proceedings

Legal proceedings are initiated by third parties against the Bank as defendant. The Bank had no outstanding legal claims at 31 December 2017, 31 December 2018.

7.20 SEGMENT ANALYSIS

The Bank's operating segments are business units which provide different financial products and service and are engaged in different types of financial transactions. As different operating segments face different clients and counterparties supported by specific techniques and market strategies, they operate independently.

The Bank has 4 operating segments: corporate banking, retailing banking, financial markets, and other categories.

Corporate banking mainly provides corporate customers with financial products and services including deposits and loans.

Retailing banking mainly provides individual customers with financial products and services including deposits and loans.

Financial Markets mainly performs inter-bank lending and borrowing, bonds investment, re-purchasing.

Others are those businesses not included in the above three segments or cannot be allocated with appropriate basis.

	Year ended 31 December 2018				
	Corporate Banking	Retail Banking	Financial Markets	Others	Total
Net interest income from external customers	949,963	(498,618)	1,321,053	–	1,772,398
Inter-segment net interest income/(expense)	(47,740)	832,753	(785,013)	–	–
Net interest income	902,223	334,135	536,040	–	1,772,398
Net fee and commission income/(expense)	3,920	(2,066)	–	14	1,868
Net gains on trading activities	–	–	24,111	–	24,111
Net gains arising from financial investments	–	–	134,775	–	134,775
Other operating income	–	–	–	936	936
Operating income	906,143	332,069	694,926	950	1,934,088
Operating expense	(236,612)	(152,186)	(297,482)	(648)	(686,928)
– Depreciation and amortisation	(13,299)	(4,125)	(19,145)	–	(36,569)
– Others	(223,313)	(148,061)	(278,337)	(648)	(650,359)
Impairment losses	(303,066)	(9,304)	(62,649)	(21,791)	(396,810)
Share of profit of an associate	–	–	3,640	–	3,640
Profit before income tax	366,465	170,579	338,435	(21,489)	853,990
Capital expenditure	31,597	9,802	45,500	197	87,096
As at 31 December 2018					
Segment assets	29,947,897	9,290,161	43,124,680	187,077	82,549,815
Segment liabilities	(30,120,029)	(22,485,934)	(23,576,945)	(121)	(76,183,029)

	Year ended 31 December 2017				
	Corporate Banking	Retail Banking	Financial Markets	Others	Total
Net interest income from external customers	596,935	(386,425)	1,363,825	–	1,574,335
Inter-segment net interest income/(expense)	(68,513)	886,380	(817,867)	–	–
Net interest income	528,422	499,955	545,958	–	1,574,335
Net fee and commission income/(expense)	4,316	(6,219)	–	13	(1,890)
Net gains on trading activities	–	–	–	–	–
Net gains arising from financial investments	–	–	97,784	–	97,784
Other operating income	–	–	–	9,727	9,727
Operating income	532,738	493,736	643,742	9,740	1,679,956
Operating expense	(78,629)	(224,740)	(235,131)	(4,668)	(543,168)
– Depreciation and amortisation	(6,283)	(17,958)	(17,750)	–	(41,991)
– Others	(72,346)	(206,782)	(217,381)	(4,668)	(501,177)
Impairment losses	(196,527)	(20,001)	(108,318)	–	(324,846)
Share of profit of an associate	–	–	–	2,544	2,544
Profit before income tax	257,582	248,995	300,293	7,616	814,486
Capital expenditure	31,134	13,698	69,476	–	114,308
As at 31 December 2017					
Segment assets	19,250,712	8,469,969	42,939,259	219,496	70,879,436
Segment liabilities	(26,263,845)	(16,453,114)	(23,826,759)	(3)	(66,543,721)

There is no high reliance of the Bank to any of the main external customers.

8. PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement will be published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and our Bank's website (www.lzccb.cn). The 2018 Annual Report prepared in accordance with IFRSs will be published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and our Bank's website (www.lzccb.cn), and will be despatched to holders of our H Shares in due course.

This annual results announcement is prepared in both English and Chinese languages. If there is any inconsistency between Chinese and English versions, the Chinese version shall prevail.

By order of the Board
Luzhou City Commercial Bank Co., Ltd.*
YOU Jiang
Chairman

Luzhou, China, March 26, 2019

As at the date of this announcement, the Board comprises Mr. You Jiang, Mr. Xu Xianzhong and Mr. Liu Shirong as executive Directors, Ms. Xu Yan, Mr. Xiong Guoming, Mr. Liu Qi and Mr. Dai Zhiwei as non-executive Directors and Mr. Liu Xiaoyu, Mr. Gu Mingan, Mr. Huang Yongqing, Mr. Ye Changqing and Mr. Tang Baoqi as independent non-executive Directors.

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