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重慶農村商業銀行

CHONGQING RURAL COMMERCIAL BANK

重慶農村商業銀行股份有限公司*

Chongqing Rural Commercial Bank Co., Ltd.*

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

(Stock Code: 3618)

RESULTS ANNOUNCEMENT FOR THE YEAR 2018

The board of directors (the “**Board**”) of Chongqing Rural Commercial Bank Co., Ltd. 重慶農村商業銀行股份有限公司* (the “**Bank**”) is pleased to announce the audited results of the Bank and its subsidiaries (the “**Group**”) for the twelve months ended 31 December 2018 (the “**Annual Results**”). This Annual Results announcement contains the full text of the annual report of the Group for the twelve months ended 31 December 2018 and the contents were prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) and the International Financial Reporting Standards. The Annual Results have been reviewed by the audit committee of the Bank. This Annual Results announcement is published on the websites of the Bank (www.cqrcb.com) and the Hong Kong Stock Exchange (www.hkexnews.hk). The annual report for the twelve months ended 31 December 2018 will be despatched to shareholders of the Bank and will also be made available at the abovementioned websites in due course.

By Order of the Board

Chongqing Rural Commercial Bank Co., Ltd.*

重慶農村商業銀行股份有限公司*

Liu Jianzhong

Chairman and Executive Director

Chongqing, the PRC, 26 March 2019

As at the date of this announcement, the executive directors of the Bank are Mr. Liu Jianzhong, Mr. Xie Wenhui and Mr. Zhang Peizong; the non-executive directors of the Bank are Ms. Chen Xiaoyan, Mr. Duan Xiaohua, Mr. Luo Yuxing and Mr. Wen Honghai; and the independent non-executive directors of the Bank are Mr. Sun Leland Li Hsun, Mr. Yin Mengbo, Mr. Yuan Zengting, Mr. Cao Guohua, Mr. Song Qinghua and Mr. Zhang Qiaoyun.

* *The Bank holds a financial licence number B0335H250000001 approved by the regulatory authority of the banking industry of the PRC and was authorised by the Administration for Industry and Commerce of Chongqing to obtain a corporate legal person business licence with a unified social credit code 91500000676129728J. The Bank is not an authorised institution in accordance with the Hong Kong Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorised to carry on banking/deposit-taking business in Hong Kong.*

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Financial Summary

The financial information of the Group set forth in this annual report is prepared on a consolidated basis in accordance with the International Financial Reporting Standards and expressed in RMB unless otherwise stated.

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December					
	2018	2017	Comparison between 2018 and 2017	2016	2015	2014
Operating results			Rate of Changes (%)			
Net interest income ⁽¹⁾	20,013.9	21,500.7	N/A	19,404.7	20,166.5	18,348.7
Net fee and commission income	2,065.8	2,295.6	(10.01)	2,118.4	1,494.9	1,069.6
Other net non-interest income ⁽¹⁾	4,011.9	173.7	N/A	138.6	227.6	384.1
Operating income	26,091.6	23,970.0	8.85	21,661.7	21,889.0	19,802.4
Operating expenses	(8,165.1)	(8,329.5)	(1.97)	(8,451.0)	(9,076.1)	(8,400.8)
Impairment losses on assets	(6,195.9)	(3,710.6)	66.98	(2,676.5)	(3,236.0)	(2,297.2)
Profit before tax	11,772.0	11,959.8	(1.57)	10,644.8	9,587.4	9,109.8
Net profit	9,164.0	9,008.4	1.73	8,001.3	7,227.8	6,813.1
Net profit attributable to equity holders of the Bank	9,058.2	8,936.0	1.37	7,944.7	7,223.3	6,828.5
Based on per share (RMB)			Changes			
Net assets per share attributable to equity holders of the Bank	7.07	6.37	0.70	5.66	5.03	4.45
Basic earnings per share	0.91	0.94	(0.03)	0.85	0.78	0.73
Profitability indicators (%)						
Average return on assets ⁽²⁾	0.99	1.05	(0.06)	1.05	1.08	1.22
Weighted average return on shareholders' equity ⁽³⁾	13.47	15.61	(2.14)	15.99	16.38	17.06
Net interest spread ⁽⁴⁾	2.40	2.44	(0.04)	2.57	2.99	3.14
Net interest margin ⁽⁵⁾	2.45	2.62	(0.17)	2.74	3.20	3.37
Net interest spread (adjusted) ⁽⁶⁾	2.44	N/A	N/A	N/A	N/A	N/A
Net interest margin (adjusted) ⁽⁶⁾	2.65	N/A	N/A	N/A	N/A	N/A
Net fee and commission income to operating income	7.92	9.58	(1.66)	9.78	6.83	5.40
Cost-to-income ratio ⁽⁷⁾	30.35	33.96	(3.61)	35.95	34.69	35.74

(Expressed in RMB million, unless otherwise stated)	As at 31 December					
	2018	2017	Comparison between 2018 and 2017	2016	2015	2014
Scale indicators			Rate of Changes (%)			
Total assets	950,618.0	905,778.1	4.95	803,157.7	716,805.2	618,889.0
Among which: loans and advances to customers, net	364,026.1	324,109.6	12.32	288,116.4	257,540.9	233,520.2
Total liabilities	878,469.2	840,532.4	4.51	748,967.9	668,517.4	576,040.6
Among which: deposits from customers	616,166.2	572,184.3	7.69	518,185.9	470,228.2	409,719.8
Share capital	10,000.0	10,000.0	—	9,300.0	9,300.0	9,300.0
Equity attributable to equity holders of the Bank	70,748.2	63,688.7	11.08	52,593.2	46,762.8	41,425.9
Non-controlling interests	1,400.6	1,557.0	(10.04)	1,596.6	1,525.0	1,422.5
Total equity	72,148.8	65,245.7	10.58	54,189.8	48,287.8	42,848.4
Assets quality indicators⁽⁸⁾(%)			Changes			
Non-performing loan ratio	1.29	0.98	0.31	0.96	0.98	0.78
Allowances to non-performing loans	347.79	431.24	(83.45)	428.37	420.03	459.79
Allowances to total loans	4.50	4.21	0.29	4.10	4.11	3.58
Capital adequacy indicators (%)			Changes			
Core Tier 1 capital adequacy ratio ⁽⁹⁾	10.95	10.39	0.56	9.85	9.88	10.12
Tier 1 capital adequacy ratio ⁽⁹⁾	10.96	10.40	0.56	9.86	9.89	10.12
Capital adequacy ratio ⁽⁹⁾	13.52	13.03	0.49	12.70	12.09	12.45
Total equity to total assets	7.59	7.20	0.39	6.75	6.74	6.92
Other indicators (%)			Changes			
Loan-to-deposit ratio ⁽¹⁰⁾	61.86	59.13	2.73	57.98	57.12	59.11



Financial Summary

- (1) The Group implemented the new standard of financial instruments for the first time since 1 January 2018. Due to the different requirements of the standards, the data for the two periods with indication marked in the above table are not comparable.
- (2) Representing the net profit for the period (including profit attributable to non-controlling interests) as a percentage of the average balance of total assets as at the beginning and end of the year.
- (3) Calculated in accordance with the requirements of the “Rules on the Preparation and Submission of Information Disclosed by Companies that Offer Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings Per Share” (Revision 2010) issued by CSRC.
- (4) Calculated as the difference between the average yield on total interest-bearing assets and the average cost rate on total interest-bearing liabilities.
- (5) Calculated by dividing net interest income by average interest-bearing assets.
- (6) The adjusted net interest spread and adjusted net interest margin were calculated based on IAS 39 as the same period of the previous year.
- (7) Calculated by dividing total operating expenses (excluding taxes and surcharges) by operating income.
- (8) Non-performing loan ratio, allowances to non-performing loans and allowances to total loans were calculated on basis of the contractual amount of loans.

In accordance with the “Notice on Adjusting the Supervision Requirements the Loss Provisions for Commercial Bank Loan” (Yin Jian Fa [2018] No.7) promulgated by the CBRC and the “Notice on Adjusting the Supervision Requirements for the Loss Provisions for Corporate Bank Loan” (Yu Yin Jian Fa [2018] No.44) promulgated by the Banking and Insurance Regulatory Commission Chongqing Bureau, the regulatory standards for the allowance to non-performing loans and allowance to total loans of the Bank are 140% and 2.1% respectively.

- (9) Calculated in accordance with the “Regulation Governing Capital of Commercial Banks (Provisional)” promulgated by the CBRC.
- (10) The calculation criteria of loan-to-deposit ratio: the loan-to-deposit ratio was calculated on basis of the contractual amount of loans.

Basis of Preparation of Certain Financial Indicators

Under the IFRSs, the restructuring of the Bank was accounted for as an acquisition of the business from the 39 Rural Credit Unions and Chongqing Rural Credit Cooperative Union (the “CRCU”) by the Bank on 27 June 2008 instead of merger accounting due to the fact that there were no same party or parties ultimately controlling the 39 Rural Credit Unions, CRCU and the Bank before and after the restructuring.

Company Information

Basic Information

Legal name and abbreviation in Chinese	重慶農村商業銀行股份有限公司(abbreviated as「重慶農村商業銀行」)
Legal name and abbreviation in English	Chongqing Rural Commercial Bank Co., Ltd. (abbreviated as “Chongqing Rural Commercial Bank”)
Legal Representative	LIU Jianzhong
Authorised Representatives	LIU Jianzhong XIE Wenhui
Company Secretary	CHU Wai Ha (appointed as Company Secretary on 16 November 2018) MOK Ming Wai (resigned as Company Secretary on 16 November 2018)
Registered address and postcode	No. 36 Jinshamen Road, Jiangbei District, Chongqing, the PRC 400023
Principal place of business in Hong Kong	31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Company's website	www.cqrcb.com
Email address	cqrcb@cqrcb.com
Listing stock exchange, stock name and stock code	The Stock Exchange of Hong Kong Limited Stock name: CQRC Bank Stock code: 3618
Date of first incorporation and registration authority	27 June 2008 Administration for Industry and Commerce of Chongqing, the PRC
Unified social credit code of corporate legal person business license	91500000676129728J
Financial license institution number	The Bank holds a financial license number B0335H250000001 approved by the China Banking Regulatory Authority



Company Information

Auditors	PricewaterhouseCoopers 22/F, Prince's Building, Central, Hong Kong PricewaterhouseCoopers Zhong Tian LLP 11/F, PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai, the PRC
Legal advisor as to PRC laws	Exceedon & Partners 7/F, Block A, Fortune Mansion, No. 2 Fortune Road, Liangjiang New Area, Chongqing, the PRC
Legal advisor as to Hong Kong laws	Clifford Chance 27 th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong
H share registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
Domestic share registrar	China Securities Depository and Clearing Co., Ltd. Beijing Branch 5/F, Jinyang Building, No. 26 Jin Rong Street, Xi Cheng District, Beijing, the PRC

Awards and Ranking in 2018

- Ranked No. 138 among the “Top 500 World Banks with Brand Value 2018” and ranked No. 21 among the domestic banks in Brand Finance (a British Brand Assessment Agency).
- Ranked No. 150 among the “Top 1,000 World Banks 2018” and ranked No. 21 among the shortlisted Chinese-funded banks in The Banker of the UK.
- Ranked No. 372 among the “2018 Top 500 Enterprises in China” and No. 134 among the “2018 Top 500 Enterprises in China’s Service Industry” of China Enterprise Confederation and China Enterprise Directors Association.
- Ranked No. 21 among the Top 100 of China Banking Association in 2018 and ranked the first among the domestic rural commercial banks and banks in the Western and Central China.
- Ranked No. 14 among the “2018 Top 100 Enterprises in Chongqing” and No. 4 among the “2018 Top 100 Enterprises in Chongqing’s Service Industry” of Chongqing Enterprise Confederation and Chongqing Enterprise Directors Association.
- Recognised as the “Role Model of Serving Agriculture and Small and Micro Business” of Rural Cooperative Financial Institutions in 2017 of China Banking Association.
- Won the “2017 Best Green Finance Award of Banking Institutions in China” by China Banking Association.
- Awarded as the “Rural and Commercial Banks with Best Risk Management in 2017” with Competitiveness Ranking of Commercial Banks in China 2018 by The Chinese Banker.
- Won the “Top 10 Retail Banks of Rural Commercial Banks” at the 2nd China Retail Finance Innovation · Practice Award by Retail Banks Magazine.
- Won the title of “Core Traders” of the National Interbank Funding Center in 2018.
- “Guarantee-assistant Loans for Scientific and Technological Enterprises” of Chongqing Rural Commercial Bank was awarded as the “Best 50 Financial Products for Small and Micro Enterprises in 2017” by China Banking Association.

Company Information

- Shortlisted as the “Top 100 Wealth Management Financial Institutions”, “Top 100 Rural Commercial Banks with Brand Recognition” and “Top 100 Financial Institutions with Public Brand Recognition” in the National Public Brand Selection in 2017 by China Finance Net.
- Awarded the “Gold Bull Wealth Management Bank Award for 2017” by China Securities Journal • Gold Bull Wealth Management. The Bank’s “Building up Your Fortune” won the “Gold Bull Bank Wealth Management Product Award in 2017 (Closed Products)”.
- Awarded as one of the “2017 Outstanding Units of National Banking Industry Wealth Management Information Registration” of the China Banking Wealth Management Registration & Depository Center.
- Won the “Debt Financing Program Business Enhancement Award” of Beijing Financial Assets Exchange.
- Won the “Most Social Responsible Financial Institution Award”, “Social Responsibility Award for Targeted Poverty Alleviation” and “Social Responsibility Award for Special Contribution” in 2017 by the Chongqing Banking Association.
- Won the awards of “2018 Excellent Financial Technology Bank”, “2018 Advanced Financial Institutions of Inclusive Finance” and “2018 Outstanding Contribution Banks for Private Enterprises” of Chongqing Daily Newspaper Group and 2018 Financial Industry (Chongqing) Jinding Awards of Chongqing Economic Times.
- Won the “Annual Financial Contribution Award”, “Annual Service Bank” and “Annual Rural Financial Service Award” of Chongqing Daily Newspaper Group, Chongqing Newspaper Metro Media Group and The 12th Annual Financial Value List in 2018 of Chongqing Morning News.
- Awarded “Annual Bank of Impact”, “Annual Small and Micro Enterprise Financial Service Agency”, “Annual Inclusive Financial Bank”, “Annual Financial Poverty Alleviation Bank”, “Annual Excellent Mobile Banking” and “Annual Excellent Service Wealth Management Products” by Hualong.com in 2018.
- Won the “2018 Golden Penguin Award”, “2018 Inclusive Finance Award” and “2018 Excellent Mobile Finance in Chongqing” by cq.qq.com.

Chairman's Statement

Dear Shareholders,

2018 was the beginning year for the full implementation of the spirit of the Nineteenth National Congress of the Party, the fortieth anniversary of reform and liberalization, and the key year for Chongqing Rural Commercial Bank to embark on a new journey of high-quality development after ten years. Under the guidance of Xi Jinping's socialist ideology with Chinese characteristics in the new era, the Board of Directors constantly strengthened the leadership of the Party and promoted stable and progressive management. The assets exceeded RMB950 billion; the deposit exceeded RMB600 billion; the loans exceeded RMB380 billion; the capital adequacy ratio was 13.5%; the non-performing loan ratio was 1.29%; the provision coverage ratio was 347.8%; and the Bank ranked the first among the rural commercial banks and banks in the Midwest in the rankings by The Banker.

The reformers are the only the ones who improve and the innovators are only the ones who are strong. We insisted on reform and innovation to drive development, took management streamlining, characteristic operation and fostering of good corporate culture as the starting point, improved the modern corporate governance model, improved the market-oriented incentive and restraint mechanism, and built a "one core, two places and three centers" science and technology security system. We focused on the transformation and upgrading of financial science and technology, accelerated financial science and technology innovation, and steadily implemented comprehensive reform. We have become the only banking institution selected by the State-owned Assets Commission of the State Council to reform the "Double Hundred Action" of state-owned enterprises in the country and strive to build a century-old company.

The deeper the roots are, the leafier and stronger the tree is. When the root is firm, the branches flourish. We rooted in Chongqing, cultivated in county areas and urban areas, tilted credit resources, appraisal resources and human resources, opened up the last mile of financial flow to "Sannong" and real economy, served 80% of Chongqing's population, and supported the development of 50% of small and micro enterprises in the city. We will support rural revitalization as part of the development strategy, implement the "10 million" cultivation project, innovate the model of poverty alleviation through Party building, industry and e-commerce, and drive agricultural loans to exceed RMB150 billion, with a balance of more than a quarter of the city's total. At the same time, the first small and micro special bond was successfully issued, and the first batch of contracted banks in Chongqing, which were listed in the national financing guarantee system, went hand in hand with private enterprises and small and micro enterprises to develop together.



Chairman's Statement

Design difficult things from easy ones, achieve large task through small tasks. We insisted to achieve efficiency in refined management, adhered to the overall philosophy of “strengthening the management, controlling risks and steady development”, persevered in the implementation of talent strengthening, technology development and strict management, and strived to build process banking. Compliance culture is deeply rooted in people’s hearts, and comprehensive risk management system is constantly improving. We focused on the domestic and international economic and financial situation, actively adjusted the structure of assets and liabilities, effectively resolved and disposed of risky loans, strictly guarded against cross-financial risks and external risk contagion, and firmly prevented and controlled risks in key areas. The main risk indicators were at a good level in the industry, maintaining a strong ability to resist risks, laying a solid foundation for achieving high-quality development.

In 2019, New China will celebrate its Seventieth Anniversary and Chongqing Rural Commercial Bank will open a new chapter. The Board of Directors will adhere to the guidance of Xi Jinping’s socialist ideology with Chinese characteristics in the new era, consolidate the “three foundations” of science and technology, talent and risk control, accelerate financial innovation, A-share listing and “three tasks” of smart banks, realize “three actions” in rural revitalization, green finance and universal livelihood of the people, and make the best of our time to work efficiently. We will bring returns to shareholders, accomplish employees and contribute to society with practical achievements!



LIU Jianzhong
Chairman

26 March 2019

President's Statement

Dear Shareholders:

2018 is the fortieth anniversary of China's reform and opening-up. It is also an extraordinary year for the financial industry and Chongqing Rural Commercial Bank. Domestic economic operation changed steadily with worries. Risk prevention, strong supervision and deleveraging began to reshape the competitive landscape of the financial industry. Commercial banks are facing unprecedented changes. However, no matter how the market environment changed, we always adhered to the market positioning of "serving Sannong, serving small and medium-sized enterprises and serving county economy", always followed the strategic direction of "characteristic operation, streamlining the management and fostering good corporate culture" and always adhered to the operation policy of "steady progress", so that Chongqing Rural Commercial Bank continued to achieve considerable success in its tenth anniversary.

Over the past year, we maintained steady growth in key indicators. The Group's total assets exceeded RMB950 billion, representing an increase of RMB44,840 million over the beginning of the year; the deposit balance was RMB600 billion, representing an increase of RMB43,980 million over the beginning of the year; and the balance of loans exceeded RMB380 billion, representing an increase of RMB42,790 million over the beginning of the year. The operating income was RMB26,090 million and the net profit was RMB9,160 million, representing an increase of RMB2,120 million and RMB160 million over the beginning of the year respectively. The average return on assets was 0.99% and the return on average equity was 13.47%. Its overall competence remained at the forefront among similar financial institutions nationwide.

Over the past year, we adhered to the risk bottom line of prudent management. Risk management committee was set up at the operation level. Financial market business management department and asset management department were established to improve liquidity and market risk limit control and strengthen the disposal and clearance of non-performing assets, and the level of comprehensive risk management further improved. The non-performing loan ratio was 1.29%. The proportion of non-performing loans with more than 90 days overdue was 70.9%, representing a decrease of 33.9 percentage points over the beginning of the year. Asset quality remained stable at a reasonable range. The loan impairment loss allowance balance was RMB17.13 billion, representing an increase of RMB2.90 billion over the same period of last year. Provision coverage rate was 347.8% and capital adequacy ratio was 13.5%, maintaining a good risk resistance.

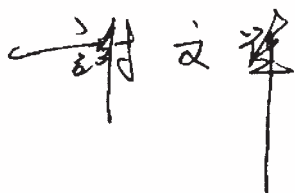
Over the past year, we steadfastly stepped up the pace of reform and innovation. Financial innovation committee and financial innovation department were set up to comb and integrate the financial innovation process from product design, R&D and launch to continuous iteration. We successfully launched the first self-developed online consumer loan product "Yukuai Loan". Face recognition, paperless counter and other electronic services were launched. Online payment transaction amount exceeded RMB130 billion. The number of registered customers of direct selling banks reached 790,000, and the annual transaction amount exceeded RMB2,200 million.

President's Statement

Over the past year, we adhered to the nature of finance for serving entities. As the main force of financial support for Rural Revitalization Strategy and targeted poverty alleviation, the balance of agriculture-related loans exceeded RMB150 billion, accounting for more than 1/4 of Chongqing. We strengthened the financial services of small and micro retail customers, developed online self-service loan renewal, follow-up and repayment functions, continuously improved service efficiency and customer experience, supported small and micro enterprise loan customers of more than 124,000, with a balance of RMB116,590 million. We actively docked major strategies, enhanced credit support for transformation and upgrading of the manufacturing industry and strategic emerging industries, etc., actively reduced the scale of financial investment in the same industry and tilted financial resources to serve the real economy.

At present, Chongqing Rural Commercial Bank has succeeded in ranking No. 138 among global banks, ranking No. 21 among Chinese-funded banks and the first in China's rural commercial banks and banks in the Western and Central China. These achievements were rooted in the strong support of the shareholders, the strong leadership of the Party Committee of the Bank, the correct decision-making of the Board of Directors and the hard work of the staff of the Bank which were also the impetus to us from the market and customers.

2019 is the seventieth anniversary of the founding of the PRC. China's economy has stepped into a new era of transformation from high-speed growth to high-quality development. Guided by Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, we will continue to integrate the new development concept with our own transformation and upgrading with the working ideas of the Board of Directors on "strong management, risk control and stable development", aiming at improving the management level. We will take prudent management as the principle of risk bottom line, reform and innovation as the driving force to promote sound management and always carry out the mission of "Excellent Services to Customers, Maximum Returns to Shareholders, Real Success for Our People, Great Contribution to Community" to open a new journey for the new era of Chongqing Rural Commercial Bank with high-quality development.



XIE Wenhui
President

26 March 2019

Management Discussion and Analysis

Financial Review

In 2018, the major developed economies maintained relatively strong growth, and the major emerging economies recovered to varying degrees. Influenced by the rise of protectionism and other factors, international trade and cross-border investment, as important momentum of world economic growth, have weakened. In 2018, all regions of China earnestly implemented the decision-making arrangements of the Central Party Committee and the State Council, actively responded to the complex and changeable situation at home and abroad, sustained and stable development of the national economy, continued progress in structural adjustment and transformation and upgrading, and continuously improved the quality of development.

In 2018, China's GDP was RMB90,030.9 billion, representing a year-on-year increase of 6.6%. The economic structure continued to optimize. The primary, secondary and tertiary industries boosted economic growth by 0.3, 2.4 and 3.9 percentage points respectively. The contribution rate of the tertiary industry to economic growth was 23.6 percentage points higher than that of the secondary industry, representing 0.1 percentage points growth over the previous year. The role of service industry in stimulating economic growth further strengthened. In 2018, industrial production was running smoothly, and the national added value of industries above the designated scale increased by 6.2%, and continued to operate in a reasonable range; industrial structure continued to optimize, and the growth of high-tech manufacturing, strategic emerging industries and some emerging industrial products was relatively rapid; the effect of structural reform on the supply side continued to show, and the effect of de-leveraging was significant; and the profitability of enterprises increased slightly. The business environment of small and micro enterprises was improving.

The nation's money supply was basically stable. At the end of 2018, the balance of broad money (M2) was RMB182.67 trillion, representing a year-on-year increase of 8.1%. The growth rate was 0.1 percentage points higher compared with the end of last month, remaining stable as the same period of last year. The balance of RMB loans was RMB136.3 trillion, representing a year-on-year increase of 13.5%; the RMB deposit balance was RMB177.52 trillion, representing a year-on-year increase of 8.2%.

In 2018, Chongqing city's GDP reached RMB2,036.319 billion, representing a year-on-year increase of 6.0%. The added value of industries above designated size of Chongqing city increased by 0.5% year-on-year calculated at comparable prices. In 2018, consumer prices rose moderately, rising by 2.0% year-on-year; factory prices of industrial producers rose by 2.1% year-on-year; and purchase prices rose by 2.5% year-on-year. Investment in fixed assets steadily increased, representing a year-on-year growth of 7.0%. In 2018, the growth of loans increased steadily. By the end of 2018, the balance of local and foreign currency loans in Chongqing amounted to RMB3,224.775 billion, representing a year-on-year increase of 13.5%, 2.2 percentage points higher than that of the same period of last year. The growth of deposits slowed down. By the end of 2018, the balance of deposits in domestic and foreign currencies in Chongqing reached RMB3,688.734 billion, representing a year-on-year increase of 5.8%, representing a decrease of 2.5 percentage points from the growth rate of the same period of last year.

I. Income Statement Analysis

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December		Change in amount	Change (%)
	2018	2017		
Net interest income ⁽¹⁾	20,013.9	21,500.7	N/A	N/A
Net fee and commission income	2,065.8	2,295.6	(229.8)	(10.01)
Net other non-interest income ⁽¹⁾	4,011.9	173.7	N/A	N/A
Operating income	26,091.6	23,970.0	2,121.6	8.85
Operating expenses	(8,165.1)	(8,329.5)	164.4	(1.97)
Impairment losses on assets	(6,195.9)	(3,710.6)	(2,485.3)	66.98
Net profit resulted from derecognition of financial assets at fair value through other comprehensive income ⁽¹⁾	39.6	N/A	N/A	N/A
Net profit resulted from derecognition of financial assets measured at amortised cost ⁽¹⁾	1.8	N/A	N/A	N/A
Net profit on disposal of available-for-sale financial assets ⁽¹⁾	N/A	25.1	N/A	N/A
Net profit or loss on disposal of investments of debt securities classified as receivables ⁽¹⁾	N/A	4.8	N/A	N/A
Profit before tax	11,772.0	11,959.8	(187.8)	(1.57)
Income tax expense	(2,608.0)	(2,951.4)	343.4	(11.64)
Net profit	9,164.0	9,008.4	155.6	1.73

Note:

- (1) The Group implemented the new standard of financial instruments for the first time since 1 January 2018. Due to the different requirements of the standards, the data for the two periods with indication marked in the above table are not comparable.

In 2018, the net interest income of the Group amounted to RMB20,014 million. The net fee and commission income amounted to RMB2,066 million. The other net non-interest income amounted to RMB4,012 million. The operating income was RMB26,092 million, representing an increase of RMB2,122 million or 8.85% over the same period of last year. The operating expense was RMB8,165 million, representing a decrease of RMB164 million or 1.97% over the same period of last year. The net profit of the Group amounted to RMB9,164 million, representing an increase of RMB156 million or 1.73% over the same period of last year. Net profit achieved a steady growth, primarily due to the fact that (i) in response to the effect from liberalization of interest rate, the Group enhanced profitability of interest-bearing assets and improved its capabilities in liability and cost management and control by strengthening the active management of assets and liabilities and the management of interest rate pricing; (ii) the Group continuously optimized its cost control and enhanced its refined management of costs with its budgeting mechanism; and (iii) the Group continuously optimized the investment structure and allocation model by closely integrating with the trend of financial market, so as to improve the investment returns on the basis of ensuring liquidity and risk control.

(I) Net Interest Income

The following table sets forth, for the years indicated, the interest income, interest expense and net interest income of the Group.

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December		Change in amount	Change (%)
	2018	2017		
Interest income ⁽¹⁾	39,720.0	39,288.4	N/A	N/A
Interest expense	(19,706.1)	(17,787.7)	(1,918.4)	10.78
Net interest income⁽¹⁾	<u>20,013.9</u>	<u>21,500.7</u>	<u>N/A</u>	<u>N/A</u>

Note:

- (1) The Group implemented the new standard of financial instruments for the first time since 1 January 2018. Due to the different requirements of the standards, the data for the two periods with indication marked in the above table are not comparable.

In 2018, the net interest income of the Group amounted to RMB20,014 million and the net interest income accounted for 76.71% of the total operating income.

Management Discussion and Analysis

The table below sets forth, for the years indicated, the average balances of interest-bearing assets and interest-bearing liabilities of the Group, related interest income or interest expense and average yields (for assets) or average costs rate (for liabilities). The analysis below excludes the impact of capital-preserve type of customer-driven wealth management products and non-capital-preserve type of customer-driven wealth management products included in the scope of accounts consolidation on the interest income and expense and average balances.

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Average balance	Interest income/ expense	Average yield/cost (%)	Average balance	Interest income/ expense	Average yield/cost (%)
Assets						
Loans and advances to customers	359,334.1	19,316.4	5.38	321,453.5	16,776.8	5.22
Debt securities investments ⁽¹⁾	208,410.7	9,857.8	4.73	272,592.8	13,587.6	4.98
Balances with Central Bank	80,565.8	1,270.0	1.58	85,632.6	1,356.3	1.58
Due from banks and other financial institutions	172,250.1	8,087.5	4.70	140,237.8	5,961.3	4.25
Total interest-bearing assets⁽²⁾	820,560.7	38,531.7	4.70	819,916.7	37,682.0	4.60
Liabilities						
Deposits from customers	597,455.6	9,836.1	1.65	553,635.0	8,542.7	1.54
Borrowings from Central Bank	30,531.9	1,009.5	3.31	29,838.2	929.6	3.12
Due to banks and other financial institutions	66,426.6	2,735.2	4.12	73,721.0	2,770.5	3.76
Bonds payable	109,276.9	4,872.7	4.46	93,612.7	3,989.3	4.26
Total interest-bearing liabilities⁽²⁾	803,691.0	18,453.5	2.30	750,806.9	16,232.1	2.16
Net interest income		20,078.2			21,449.9	
Net interest spread⁽³⁾			2.40			2.44
Net interest margin⁽³⁾			2.45			2.62

Note:

- (1) The Group implemented the new standard of financial instruments on 1 January 2018. The interest-bearing assets for 2018 included financial assets measured at amortised cost and financial assets at fair values through other comprehensive income; interest-bearing assets for 2017 included financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and investments classified as receivables.
- (2) The impact of customer-driven wealth management products was excluded.
- (3) The Group implemented the new standard of financial instruments on 1 January 2018. During the Reporting Period, according to the basis of IAS 39 as the same period of the previous year, the net interest spread was 2.44%, remaining stable as the same period of the previous year; the net interest margin was 2.65%, representing an increase of 3 basis points from the same period of the previous year.

In 2018, the average yield on overall interest-bearing assets of the Group increased by 10 basis points from the same period of the previous year to 4.70%. The average cost rate of the overall interest-bearing liabilities increased by 14 basis points from the same period of the previous year to 2.30%.

The following table sets forth the changes in the Group's interest income and interest expense due to changes in volume and interest rate. Changes in volume are measured by the movement of the average balance, while changes in the interest rate are measured by the movement of the average interest rate.

(Expressed in RMB million, unless otherwise stated)	Volume factor	Rate factor	Changes in interest income/ expense
Assets			
Loans and advances to customers	2,038.0	501.6	2,539.6
Debt securities investments	(3,035.8)	(694.0)	(3,729.8)
Balances with Central bank	(80.1)	(6.2)	(86.3)
Due from banks and other financial institutions	1,504.6	621.6	2,126.2
Changes in interest income	<u>426.7</u>	<u>423.0</u>	<u>849.7</u>
Liabilities			
Deposits from customers	723.0	570.4	1,293.4
Due to Central bank, banks and other financial institutions	(254.8)	299.4	44.6
Bonds payable	698.6	184.8	883.4
Changes in interest expense	<u>1,166.8</u>	<u>1,054.6</u>	<u>2,221.4</u>

Under the influence of the new financial instrument standard, the financial assets measured at fair value through profit or loss and the corresponding interest income are not included in the above table and are directly listed in the net profit or loss of the transaction. Therefore, during the Reporting Period, the Group recorded a decrease of RMB740 million of net interest income arising from changes in the average balance of various assets and liabilities, and a decrease of RMB632 million of net interest income is attributable to the changes in the average yield or the average cost rate.

1. Interest Income

The Group implemented the new standard of financial instruments on 1 January 2018. Gains on financial assets at fair value through profit or loss were included in net trading gain or loss and no longer included in interest income. The bases for the period and the same period of the previous year were different, and the data of the two periods cannot be directly compared.

Management Discussion and Analysis

In 2018, the interest income of the Group amounted to RMB39,720 million. The analysis below does not take into account of the interest income generated from the capital-preserve type of customer-driven wealth management products or non-capital-preserve type of customer-driven wealth management products included in the scope of accounts consolidation.

(1) Interest Income from Loans and Advances to Customers

The average balance, interest income and average yield for each component of loans and advances to customers of the Group are set forth as follows:

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	221,286.3	10,784.6	4.87	206,578.9	10,069.9	4.87
Retail loans	123,152.7	7,851.8	6.38	103,368.3	6,251.1	6.05
Discounted bills	14,895.1	680.0	4.57	11,506.3	455.8	3.96
Total loans and advances to customers	359,334.1	19,316.4	5.38	321,453.5	16,776.8	5.22

Interest income from loans and advances to customers increased by RMB2,539 million or 15.13% to RMB19,316 million as compared to the previous year, primarily attributable to the increase of RMB2,038 million in interest income driven by the increase in the average balance of loans and advances to customers.

(2) Interest Income from Debt Securities Investments

The Group implemented the new standard of financial instruments on 1 January 2018. Financial assets at fair value through profit or loss were no longer presented as interest-bearing assets. Therefore, the bases for the period and the same period of the previous year were different, and the data of the two periods cannot be directly compared.

In 2018, the Group's interest income from debt securities investments amounted to RMB9,858 million. According to the basis of IAS 39 as the same period of the previous year, the interest income from debt securities investments for the period decreased by RMB352 million or 2.59% to RMB13,236 million as compared to the same period of the previous year, primarily due to the fact that the Group cautiously adjusted its investment structure according to the market environment.

(3) Interest Income from Balances with Central Bank

In 2018, the Group's interest income from balances with Central Bank decreased by RMB86 million or 6.34% to RMB1,270 million as compared to the previous year, mainly due to the decrease in average balance with Central Bank over the previous year.

(4) Interest Income from Due from Banks and Other Financial Institutions

The average balance, interest income and average yield for each component of due from banks and other financial institutions of the Group are set forth as follows:

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Deposits and placements with banks and other financial institutions	148,741.6	7,470.4	5.02	127,151.1	5,576.7	4.39
Financial assets held under resale agreements	23,508.5	617.1	2.63	13,086.7	384.6	2.94
Total due from banks and other financial institutions	172,250.1	8,087.5	4.70	140,237.8	5,961.3	4.25

In 2018, the interest income from deposits and placements with banks and other financial institutions of the Group increased by RMB1,893 million or 33.94% to RMB7,470 million as compared to the previous year, primarily attributable to the increases in the average balance and the average yield of deposits and placements with banks and other financial institutions as compared to the previous year.

In 2018, the interest income from financial assets held under resale agreements increased by RMB232 million or 60.26% to RMB617 million as compared to the previous year, primarily attributable to the increase in average balance of financial assets held under resale agreements as compared to last year.

2. Interest Expense

In 2018, the Group's interest expense increased by RMB1,918 million or 10.78% to RMB19,706 million as compared to the previous year. The analysis below does not take into account of the interest expense generated from the capital-preserve type of customer-driven wealth management products or non-capital-preserve type of customer-driven wealth management products included in the scope of accounts consolidation.

(1) Interest Expense on Deposits from Customers

The average balance, interest expense and average cost rate for each component of deposits from customers of the Group are set forth as follows:

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Average balance	Interest expense	Average cost rate (%)	Average balance	Interest expense	Average cost rate (%)
Corporate deposits						
Demand	118,847.7	843.7	0.71	117,821.6	832.0	0.71
Time	37,516.5	827.0	2.20	26,558.2	669.1	2.52
Subtotal	<u>156,364.2</u>	<u>1,670.7</u>	<u>1.07</u>	<u>144,379.8</u>	<u>1,501.1</u>	<u>1.04</u>
Retail deposits						
Demand	111,585.9	334.7	0.30	109,545.5	342.2	0.31
Time	329,505.5	7,830.7	2.38	299,709.7	6,699.4	2.24
Subtotal	<u>441,091.4</u>	<u>8,165.4</u>	<u>1.85</u>	<u>409,255.2</u>	<u>7,041.6</u>	<u>1.72</u>
Total deposits from customers	<u>597,455.6</u>	<u>9,836.1</u>	<u>1.65</u>	<u>553,635.0</u>	<u>8,542.7</u>	<u>1.54</u>

In 2018, interest expense on deposits from customers of the Group amounted to RMB9,836 million, representing an increase of RMB1,293 million or 15.14% as compared to last year, primarily attributable to a year-on-year increase in the average balance of deposits from customers.

(2) Interest Expense on Due to Banks and Other Financial Institutions

The average balance, interest expense and average cost rate for each component of due to banks and other financial institutions of the Group are set forth as follows:

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Average balance	Interest expense	Average cost rate (%)	Average balance	Interest expense	Average cost rate (%)
Deposits and placements from banks and other financial institutions	49,534.6	2,309.0	4.66	58,285.9	2,292.9	3.93
Financial assets sold under repurchase agreements	16,892.0	426.2	2.52	15,435.1	477.6	3.09
Total due to banks and other financial institutions	66,426.6	2,735.2	4.12	73,721.0	2,770.5	3.76

In 2018, the Group's interest expense on deposits and placements from banks and other financial institutions amounted to RMB2,309 million, representing an increase of RMB16 million or 0.70% over the previous year, which was primarily due to the increase in the average cost rate of deposits and placements from banks and other financial institutions.

In 2018, the interest expense on financial assets sold under repurchase agreements of the Group decreased by RMB52 million or 10.88% to RMB426 million as compared to the previous year, primarily due to the decrease in the average cost rate of financial assets sold under repurchase agreements as compared to the previous year.

(3) Bonds Payable

In 2018, the interest expense on bonds payable of the Group was RMB4,873 million, representing an increase of RMB884 million or 22.16% as compared to that of last year, mainly attributable to the optimization of debts structure and increase in the scale of deposit of certificate issued to other banks.

3. Net Interest Spread and Net Interest Margin

Net interest spread is the difference between the average yield on interest-bearing assets and the average cost on interest-bearing liabilities. Net interest margin is the ratio of net interest income to the average balance of interest-bearing assets.

Management Discussion and Analysis

In 2018, the net interest spread of the Group decreased by 4 basis points to 2.40% as compared to the same period of the previous year. In 2018, the net interest margin of the Group was 2.45%, representing a decrease of 17 basis points from the same period of the previous year, primarily due to the change of the application of new and previous standards on debt securities investments after the implementation of the new standard of financial instruments on 1 January 2018 by the Group. During the Reporting Period, according to the basis of IAS 39 as the same period of the previous year, the net interest spread was 2.44%, remaining stable as the same period of the previous year; the net interest margin was 2.65%, representing an increase of 3 basis points from the same period of the previous year.

(II) Non-interest Income

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December		Change in amount	Change (%)
	2018	2017		
Fee and commission income	2,203.1	2,454.3	(251.2)	(10.24)
Wealth management fees	1,108.8	1,406.8	(298.0)	(21.18)
Agency and fiduciary service fees	456.7	445.3	11.4	2.56
Bank card fees	264.3	333.0	(68.7)	(20.63)
Settlement and clearing fees	143.6	131.1	12.5	9.53
Others	229.7	138.1	91.6	66.33
Less: Fee and commission expense	(137.3)	(158.7)	21.4	(13.48)
Net fee and commission income	2,065.8	2,295.6	(229.8)	(10.01)
Net trading gain or loss	3,807.3	(36.8)	N/A	N/A
Other net business gain	204.6	210.5	(5.9)	(2.80)
Other net non-interest income	4,011.9	173.7	N/A	N/A
Total net non-interest income	6,077.7	2,469.3	3,608.4	146.13

1. Net Fee and Commission Income

In 2018, affected by the restructuring of the Group's asset management business structure, the net fee and commission income of the Group amounted to RMB2,066 million, representing a decrease of RMB230 million, or 10.01%, over the same period of the previous year.

Income from wealth management fees amounted to RMB1,109 million, representing a decrease of RMB298 million, or 21.18%, over the same period of the previous year.

Income from agency and fiduciary service fees amounted to RMB457 million, representing an increase of RMB11 million, or 2.56%, over the same period of the previous year.

Income from bank card fees amounted to RMB264 million, representing a decrease of RMB69 million, or 20.63%, over the same period of the previous year.

Income from settlement and clearing fees amounted to RMB144 million, representing an increase of RMB13 million, or 9.53%, over the same period of the previous year. It was mainly due to the promotion and application of innovative payment and settlement methods such as the Group's Internet.

2. Other Non-interest Income

In 2018, the Group's net trading gain amounted to RMB3,807 million, representing a relatively large year-on-year change. It was mainly due to the Group's implementation of the new standard of financial instruments on 1 January 2018. Gains on financial assets at fair value through profit or loss were included in this item.

In 2018, other net business gain of the Group increased by RMB6 million to RMB205 million.

(III) Operating Expenses

In 2018, the operating expenses of the Group decreased by RMB164 million or 1.97% to RMB8,165 million as compared to the previous year.

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December		Change in amount	Change (%)
	2018	2017		
Staff costs	5,268.5	5,480.1	(211.6)	(3.86)
Taxes and surcharges	245.2	188.5	56.7	30.08
Depreciation and amortisation	750.6	805.7	(55.1)	(6.84)
Others	1,900.8	1,855.2	45.6	2.46
Total operating expenses	8,165.1	8,329.5	(164.4)	(1.97)

Management Discussion and Analysis

1. Staff Costs

Staff costs are the largest component of operating expenses of the Group, accounting for 64.52% and 65.79% of its total operating expenses for the years ended 31 December 2018 and 2017 respectively.

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December		Change in amount	Change (%)
	2018	2017		
Salaries, bonuses and allowances	3,602.7	3,531.7	71.0	2.01
Staff welfare, social insurance and housing funds	1,396.5	1,256.0	140.5	11.19
Others	269.3	692.4	(423.1)	(61.11)
Total staff costs	5,268.5	5,480.1	(211.6)	(3.86)

In 2018, staff costs of the Group amounted to RMB5,269 million, representing a decrease of RMB212 million, or 3.86%, over the same period of the previous year.

2. Taxes and Surcharges

Taxes and surcharges mainly relate to revenue generated from our provision of financial products and services with respect to lending (interest income), transfer of securities and other financial businesses. In 2018, taxes and surcharges increased by RMB57 million or 30.08% to RMB245 million as compared to the previous year. It was mainly due to the expansion of the business scale of the Group.

3. Depreciation and Amortisation

In 2018, depreciation and amortisation amounted to RMB751 million, representing a decrease of RMB55 million or 6.84% as compared to the corresponding period of last year.

4. Others

For the year 2018, other general and administrative expenses amounted to RMB1,901 million, representing an increase of RMB46 million or 2.46% as compared to the corresponding period of last year.

(IV) Impairment Loss on Assets

Impairment loss on assets consists primarily of provisions charged on loans and advances to customers and other assets. Provisions charged for impairment loss on assets was RMB6,196 million for the year ended 31 December 2018, representing an increase of RMB2,485 million or 66.98% over the previous year.

The following table sets forth, for the years indicated, the principal components of impairment loss on assets.

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December		Change in amount	Change (%)
	2018	2017		
Loans and advances to customers	5,809.0	3,284.4	2,524.6	76.87
Other assets	386.9	426.2	(39.3)	(9.22)
Total impairment loss on assets	6,195.9	3,710.6	2,485.3	66.98

In 2018, provisions of impairment loss for loans and advances to customers were RMB5,809 million, representing an increase of RMB2,525 million as compared with 2017, primarily due to the increase in provision for loans of the Group based on the strategy of prudential operation and full consideration of the impact of the macroeconomic environment.

In 2018, the provisions for impairment on other assets were RMB387 million, representing a decrease of RMB39 million as compared with 2017, which was mainly due to the expected credit loss reversal based on credit commitments.

(V) Income Tax Expense

The applicable income tax rate of the Group was 25%. The effective tax rate of the Group in 2018 and 2017 was 22.15% and 24.68% respectively. The effective tax rate decreased by 2.53 percentage points over the previous year.

The following table sets forth the profit before tax and income tax expense for the years ended 31 December 2018 and 2017.

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December		Change in amount	Change (%)
	2018	2017		
Profit before tax	11,772.0	11,959.8	(187.8)	(1.57)
Tax calculated at applicable statutory tax rate	2,914.1	2,957.5	(43.4)	(1.47)
Add/(less) the tax effect of the following items:				
Non-deductible expenses	41.6	159.8	(118.2)	(73.97)
Non-taxable income	(353.0)	(178.6)	(174.4)	97.65
Deductible losses for which no deferred income tax asset was recognized	5.3	12.7	(7.4)	(58.27)
Income tax expenses	2,608.0	2,951.4	(343.40)	(11.64)

II. Analysis on Statement of Financial Position

(I) Assets

The following table sets forth, as at the dates indicated, the composition of the Group's total assets.

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage of Total (%)	Amount	Percentage of Total (%)
Carrying balance of loans and advances to customers	381,135.6	40.09	338,346.6	37.35
Allowances for impairment on loans and advances to customers	(17,109.5)	(1.80)	(14,237.0)	(1.57)
Loans and advances to customers	364,026.1	38.29	324,109.6	35.78
Investment securities ⁽¹⁾	297,277.8	31.28	316,967.9	34.99
Cash and balances with the Central Bank	85,935.2	9.04	97,012.1	10.71
Deposits with banks and other financial institutions	32,208.1	3.39	45,380.4	5.01
Placements with banks and other financial institutions	138,543.5	14.57	102,641.4	11.33
Financial assets held under resale agreements	6,000.7	0.63	2,443.7	0.27
Financial assets measured at fair value through profit and loss	15,094.5	1.59	519.2	0.06
Goodwill	440.1	0.05	440.1	0.05
Other assets ⁽²⁾	11,092.0	1.16	16,263.7	1.80
Total assets	950,618.0	100.00	905,778.1	100.00

Note:

- (1) The Group implemented the new standard of financial instruments on 1 January 2018. The assets for 2018 included financial assets measured at amortised cost and financial assets at fair values through other comprehensive income; the assets for 2017 included available-for-sale financial assets, held-to-maturity investments and investments classified as receivables.
- (2) Other assets consist of properties and equipments, deferred income tax assets and other assets.



Management Discussion and Analysis

As at 31 December 2018, the Group's total assets amounted to RMB950,618 million, representing an increase of RMB44,840 million, or 4.95% as compared to the end of the previous year, among which:

Carrying balance of loans and advances to customers increased by RMB42,789 million, or 12.65%, as compared to the end of the previous year. This was primarily due to the fact that based on effective control over risks, the Group further optimised the credit structure, reasonably allocated credit resources, focused on supporting the strategic new industries with traditional advantages which have good prospects for development and are advocated by the government and the agriculture-related industries, prudently supported the traditional industries with large industry fluctuations that need to focus on optimizing the credit structure;

Investment securities for the period amounted to RMB297,278 million, representing a large year-on-year change. It was firstly due to the Group's implementation of the new standard of financial instruments on 1 January 2018. Certain invested financial assets were presented under financial assets at fair value through profit or loss. The second reason was that the Group's active implementation of new assets management requirements and rational adjustment of investment structure on the basis of risks and benefits consideration;

Total cash and balances with the Central Bank amounted to RMB85,935 million, decreased by RMB11,077 million, or 11.42% as compared to the end of the previous year. It was mainly due to changes in the central bank reserve ratio.

The total amount of deposits with banks and other financial institutions and placements with banks and other financial institutions increased by RMB22,731 million, or 15.36%, as compared to the end of the previous year, primarily due to that the Group increased amount of placements with banks in conjunction with its own business needs.

Financial assets held under resale agreements increased by RMB3,557 million, or 145.54%, as compared to the end of the previous year. It was mainly due to the adjustment by the Group taking into consideration asset-liability matching and market liquidity.

Financial assets at fair value through profit or loss for the period amounted to RMB15,095 million, representing a large year-on-year change, mainly due to the Group's implementation of new standard of financial instruments on 1 January 2018, and hence certain invested financial assets were presented under this item according to the new standard of financial instruments in 2018.

1. *Loans and Advances to Customers (Contractual Amount)*

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage of Total (%)	Amount	Percentage of Total (%)
Corporate loans	227,687.0	59.74	214,752.5	63.47
Short-term loans ⁽¹⁾	83,997.8	22.04	87,303.8	25.80
Medium and long-term loans ⁽²⁾	143,689.2	37.70	127,448.7	37.67
Retail loans	133,256.0	34.96	113,551.3	33.56
Residential mortgage and personal commercial property loans ⁽³⁾	60,373.9	15.84	50,185.5	14.83
Personal business and re-employment loans ⁽⁴⁾	42,998.3	11.28	38,120.6	11.27
Others ⁽⁵⁾	29,883.8	7.84	25,245.2	7.46
Discounted bills	20,192.6	5.30	10,042.8	2.97
Loans and advances to customers, gross	381,135.6	100.00	338,346.6	100.00

Notes:

- (1) Short-term loans primarily consist of loans with contractual maturities of one year or less.
- (2) Medium and long-term loans primarily consist of loans with contractual maturities over one year.
- (3) Residential mortgage and personal commercial property loans primarily consist of personal mortgage loan, second mortgage and decoration loans, and loans to retail customers to acquire property for small business purposes, such as store premises.
- (4) Personal business and re-employment loans primarily consist of personal loans for business purposes, personal working capital loans and small amount loans related to employment and re-employment.
- (5) Others primarily consist of personal commercial property mortgage loans, personal residential maximum mortgage loans, credit card loans, personal car loans, loans for personal durable goods and personal education loans, rural cross-guaranteed loans and credit loans.

Management Discussion and Analysis

As at 31 December 2018, the gross amount of loans and advances to customers of the Group increased by RMB42,789 million, or 12.65% to RMB381,136 million as compared to the end of the previous year.

Corporate loans (excluding discounted bills) increased by RMB12,935 million, or 6.02% to RMB227,687 million as compared to the end of the previous year, and accounted for 59.74% of gross loans and advances to customers, 3.73 percentage points lower than that of the end of previous year. During the period, on the basis of complying with the national industrial policy, the Group actively adjusted the credit structure, and focused on real economic development, mainly extending to industries such as manufacturing, water conservation, environment and public utility management and wholesale and retail.

Our retail loans increased by RMB19,705 million, or 17.35% to RMB133,256 million as compared to the end of the previous year, which accounted for 34.96% of total loans and advances to customers, representing an increase of 1.40 percentage points as compared to the end of previous year. This is due to the fact that the Group focused on meeting the credit needs of consumer spending, devoted efforts in supporting personal business and employment and greatly promoted automobile mortgage, credit card, travel, education and other value-added services, by following the principle of prudent operations and adapting to the changing market condition. Personal business and re-employment loans increased by RMB4,878 million as compared to the end of the previous year.

Discounted bills increased by RMB10,150 million, or 101.07%, to RMB20,193 million as compared to the end of the previous year.

Distribution of Loans and Advances by Type of Collateral (Contractual Amount)

The following table sets forth, as at the dates indicated, the distribution of loans and advances to customers by type of collateral.

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage of Total (%)	Amount	Percentage of Total (%)
Credit loans	50,100.5	13.15	43,481.3	12.85
Guaranteed loans	106,405.0	27.92	97,902.0	28.94
Collateralised loans	164,370.4	43.12	152,766.0	45.15
Pledged loans	60,259.7	15.81	44,197.3	13.06
Total loans and advances to customers	381,135.6	100.00	338,346.6	100.00

Allowances for Impairment Losses on Loans and Advances to Customers (Contractual Amount)

The following table sets forth, for the years indicated, the impairment losses on loans and advances to customers.

(Expressed in RMB million, unless otherwise stated) Corporate loans and advances	2018			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	2,722.2	4,472.0	3,371.9	10,566.1
Transfer:				
Transfer from Stage 1 to Stage 2	(1,664.7)	1,664.7	—	—
Transfer from Stage 1 to Stage 3	(517.1)	—	517.1	—
Transfer from Stage 2 to Stage 1	724.5	(724.5)	—	—
Transfer from Stage 2 to Stage 3	—	(679.4)	679.4	—
Transfer from Stage 3 to Stage 2	—	26.1	(26.1)	—
Changes in expected credit losses due to stage transfers	(627.3)	1,160.5	2,741.1	3,274.3
New financial assets originated or purchased	4,209.1	—	—	4,209.1
Derecognition and settlement	(1,181.7)	(830.6)	(502.5)	(2,514.8)
Remeasurement	(112.1)	(304.3)	76.8	(339.6)
Write-offs and other transfers	—	—	(2,118.6)	(2,118.6)
As at 31 December 2018	<u>3,552.9</u>	<u>4,784.5</u>	<u>4,739.1</u>	<u>13,076.5</u>

(Expressed in RMB million, unless otherwise stated) Retail loans and advances	2018			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	1,652.0	394.5	1,109.5	3,156.0
Transfer:				
Transfer from Stage 1 to Stage 2	(131.9)	131.9	—	—
Transfer from Stage 1 to Stage 3	(124.9)	—	124.9	—
Transfer from Stage 2 to Stage 1	80.3	(80.3)	—	—
Transfer from Stage 2 to Stage 3	—	(103.6)	103.6	—
Transfer from Stage 3 to Stage 1	39.5	—	(39.5)	—
Transfer from Stage 3 to Stage 2	—	8.9	(8.9)	—
Changes in expected credit losses due to stage transfers	(114.1)	134.0	716.4	736.3
New financial assets originated or purchased	1,802.6	—	—	1,802.6
Derecognition and settlement	(746.4)	(158.6)	(192.8)	(1,097.8)
Remeasurement	215.5	2.5	85.7	303.7
Write-offs and other transfers	—	—	(867.8)	(867.8)
As at 31 December 2018	<u>2,672.6</u>	<u>329.3</u>	<u>1,031.1</u>	<u>4,033.0</u>

Management Discussion and Analysis

In 2018, the Group always adhered to sound and prudent business, complied strictly with the relevant requirements of accounting standards, gave full consideration to changes in the external economic situation and the macro-control policies, and fully provided for impairment of loans and advances. As at 31 December 2018, balance of allowances for impairment losses on corporate loans increased by RMB2,510 million to RMB13,077 million over the beginning of the year. The balance of allowances for impairment losses on personal loans increased by RMB877 million to RMB4,033 million over the beginning of the year.

2. Investments

The following table sets forth, as at the dates indicated, the composition of investments of the Group.

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage of Total (%)	Amount	Percentage of Total (%)
Financial assets measured at fair value through profit or loss	15,094.5	4.83	519.2	0.16
Financial assets measured at fair value through other comprehensive income	7,713.1	2.47	N/A	N/A
Financial assets measured at amortised cost	289,564.7	92.70	N/A	N/A
Available-for-sale financial assets	N/A	N/A	165,780.6	52.22
Held-to-maturity investments	N/A	N/A	72,444.2	22.82
Investments classified as receivables	N/A	N/A	78,743.1	24.80
Total investment	312,372.3	100.00	317,487.1	100.00

In 2018, the total investments amounted to RMB312,372 million, representing a decrease of RMB5,114 million or 1.61% as compared to the end of the previous year, which was mainly attributable to the Group's active implementation of new asset management requirements and constant optimization of investment structure and configuration pattern combined with asset and liability management objectives as the Group constantly maintained its liquidity demands and risk controllability, so as to achieve flexible allocation of assets while maximizing the operating revenue.

Financial Investments

The following table sets forth, as at the dates indicated, the composition of financial investments of the Group.

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage of Total (%)	Amount	Percentage of Total (%)
Government bonds	82,391.6	26.42	31,789.9	10.04
Public sector, and quasi-government bonds	39,087.5	12.54	24,878.2	7.85
Financial institution bonds	16,230.9	5.21	8,893.8	2.81
Corporate bonds	57,609.5	18.48	50,120.3	15.82
Debt instruments issued by financial institutions	41,702.7	13.38	197,950.8	62.50
Interbank deposit	67,113.7	21.53	1,653.7	0.52
Debt financing plan	7,620.0	2.44	1,504.0	0.47
Total	311,755.9	100.00	316,790.7	100.00

(II) Liabilities

The following table sets forth, as at the dates indicated, the composition of total liabilities of the Group.

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage of Total (%)	Amount	Percentage of Total (%)
Deposits from customers	616,166.2	70.14	572,184.3	68.08
Deposits and placements from banks and borrowings from the Central Bank	82,829.0	9.43	139,806.1	16.63
Financial assets sold under repurchase agreements	5,920.7	0.67	7,545.0	0.90
Debt securities issued	159,609.4	18.17	103,901.3	12.36
Other liabilities ⁽¹⁾	13,943.9	1.59	17,095.7	2.03
Total liabilities	878,469.2	100.00	840,532.4	100.00

Note:

- (1) Other liabilities consist of accrued staff costs, taxes payable and other payables, etc.

Management Discussion and Analysis

As at 31 December 2018, the total liabilities increased by RMB37,937 million, or 4.51%, to RMB878,469 million as compared to the end of the previous year. Deposits from customers are the largest capital source of the Group, which increased by RMB43,982 million or 7.69% as compared to the end of the previous year. Deposits and placements from banks and borrowings from the Central Bank decreased by RMB56,977 million or 40.75% as compared to the end of the previous year. Debt securities issued increased by RMB55,708 million or 53.62% from the end of the previous year, primarily because the Group optimized the financing structure and an increase in the issuance of inter-bank deposit receipts.

1. Deposits from Customers

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage of Total (%)	Amount	Percentage of Total (%)
Corporate deposits	153,935.5	24.98	147,855.5	25.84
Demand deposits	122,756.2	19.92	121,315.2	21.20
Time deposits	31,179.3	5.06	26,540.3	4.64
Personal deposits	454,680.0	73.79	414,815.6	72.49
Demand deposits	111,100.5	18.03	107,609.1	18.81
Time deposits	343,579.5	55.76	307,206.5	53.68
Pledged deposits	7,508.1	1.22	9,417.9	1.65
Other deposits	42.6	0.01	95.3	0.02
Total deposits from customers	616,166.2	100.00	572,184.3	100.00

As at 31 December 2018, the deposits from customers amounted to RMB616,166 million, representing an increase of RMB43,982 million or 7.69% as compared to the end of the previous year. The retail deposits, which is the main source of the deposits from customers, accounted for 73.79% with respect to the customer structure of the Group. By virtue of the network strength spreading through urban and towns and customer base, the balance of retail deposits increased by RMB39,864 million or 9.61% as compared to the end of the previous year; the corporate deposits (exclude the pledged deposits) accounted for 24.98%, the balance of deposits increased by RMB6,080 million or 4.11% as compared to the end of the previous year.

(III) Shareholders' Equity

The following table sets forth, as at the dates indicated, the composition of shareholders' equity of the Group.

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage of Total (%)	Amount	Percentage of Total (%)
Share capital	10,000.0	13.86	10,000.0	15.33
Capital reserve	12,483.9	17.30	12,501.6	19.16
Investment revaluation reserve	51.1	0.07	(109.7)	(0.17)
Actuarial changes reserve	(306.2)	(0.42)	(130.7)	(0.20)
Surplus reserve	10,346.9	14.34	9,457.2	14.49
General reserve	12,225.2	16.94	10,726.3	16.44
Retained earnings	25,947.3	35.97	21,244.0	32.56
Equity attributable to equity holders of the				
Bank	70,748.2	98.06	63,688.7	97.61
Non-controlling interests	1,400.6	1.94	1,557.0	2.39
Total equity	72,148.8	100.00	65,245.7	100.00

As at 31 December 2018, total equity amounted to RMB72,149 million, representing an increase of RMB6,903 million as compared to the end of the previous year, mainly attributable to the increase in retained earnings. In particular, surplus reserve increased by RMB890 million as compared to the end of the previous year, primarily resulting from the provisions made for statutory surplus reserve. General reserve increased by RMB1,499 million as compared to the end of the previous year, as the general reserve was required to be not less than an amount equal to 1.5% of the balance of risk assets at the end of the previous year.

III. Loan Quality Analysis (The Group)

(I) Breakdown of Loans by the Five-Category Classification

The following table sets forth, as at the dates indicated, the distribution of the Group's loans by the five-category loan classification under which non-performing loans are classified into substandard, doubtful and loss categories:

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Normal	368,842.7	96.78	326,590.8	96.52
Special mention	7,366.6	1.93	8,454.4	2.50
Substandard	2,936.6	0.77	1,753.9	0.52
Doubtful	1,842.5	0.48	1,514.8	0.45
Loss	147.2	0.04	32.7	0.01
Total book balance of loans and advances to customers	381,135.6	100.00	338,346.6	100.00
Carrying balance of non- performing loans	4,926.3		3,301.4	
Non-performing loan ratio (%)		1.29		0.98

In 2018, subject to the increasingly complicated economic and financial circumstances at home and abroad, the Group upheld the baseline of thinking (底線思維), strictly implemented the national policies and financial regulatory requirements, strengthened the authorization management and control as well as active management of asset quality, and increased efforts in conducting industry study and analysis. Proactive actions were taken to optimize and adjust the credit structure and prevent and resolve the risks in advance. The Group prudently carried out classified management of credit assets. Greater efforts were devoted to collect, dispose of and write off non-performing assets, and overall risk of credit asset quality could be controlled. As at 31 December 2018, the balance of non-performing loans increased by RMB1,625 million from the end of the previous year to RMB4,926 million; while the non-performing loan ratio was 1.29% which was 0.31 percentage points higher than that of the end of the previous year. The special mention loans accounted for 1.93%, representing a decrease of 0.57 percentage points as compared to the end of the previous year.

(II) Concentration of Loans

1. Concentration by Industry and Distribution of Non-performing Loans

The following table sets forth, as at the dates indicated, the loans and non-performing loans by industry:

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018				As at 31 December 2017			
	Loan amount	Percentage of total (%)	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	Percentage of total (%)	Non-performing loan amount	Non-performing loan ratio (%)
Corporate loans	227,687.0	59.74	3,617.7	1.59	214,752.5	63.47	2,066.9	0.96
Manufacturing	63,526.6	16.67	2,187.9	3.44	64,861.3	19.17	893.4	1.38
Production and supply of electricity, gas and water	14,859.1	3.90	–	–	14,185.6	4.19	–	–
Real estate	8,267.9	2.17	58.3	0.71	10,725.3	3.17	–	–
Leasing and commercial services	37,373.6	9.80	5.8	0.02	17,953.1	5.31	48.0	0.27
Water, environment and public utility management	42,488.9	11.15	–	–	46,746.1	13.82	–	–
Construction	7,912.3	2.08	169.1	2.14	7,512.1	2.22	82.5	1.10
Retail and wholesale	19,022.2	4.99	811.9	4.27	21,351.4	6.31	814.2	3.81
Other	34,236.4	8.98	384.7	1.12	31,417.6	9.28	228.8	0.73
Personal loans	133,256.0	34.96	1,308.6	0.98	113,551.3	33.56	1,234.5	1.09
Discounted bills	20,192.6	5.30	–	–	10,042.8	2.97	–	–
Total	381,135.6	100	4,926.3	1.29	338,346.6	100.00	3,301.4	0.98

In 2018, to cope with the tumultuous and ever-changing external economic conditions, the Group updated the industry specific guidelines on a regular basis, strictly adhered to the entry and exit standard of lending, strengthened the management and control of key industries and strictly implemented relevant national control policies. Both non-performing loans and non-performing loan ratios of the leasing and commercial service industry has decreased.

2. Concentration of Borrowers

In the end of 2018, the Group's total loans to its largest single borrower accounted for 5.95% of its net capital while total loans to its top ten clients accounted for 27.49% of its net capital, both of which were in compliance with the regulatory requirements. As at 31 December 2018, the Group's loans to top ten largest single borrowers were not non-performing loans.

(1) Indicator of concentration

Major Regulatory Indicators	Regulatory standard	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
Loan ratio for the largest single borrower (%)	≤10%	5.95	6.47	6.11
Loan ratio for the single group borrower (%)	≤15%	7.75	7.88	6.97

(2) Loans to top ten single borrowers

		As at 31 December 2018	
(Expressed in RMB million, unless otherwise stated)	Industry	Amount	Percentage of the total amount of loans (%)
Borrower A	Manufacturing	5,206.1	1.37
Borrower B	Leasing and commercial service	3,505.0	0.92
Borrower C	Water, environment and public utility management	2,769.4	0.73
Borrower D	Water, environment and public utility management	2,450.5	0.64
Borrower E	Manufacturing	1,852.4	0.49
Borrower F	Real estate	1,751.0	0.46
Borrower G	Water, environment and public utility management	1,720.8	0.45
Borrower H	Manufacturing	1,633.1	0.43
Borrower I	Water, environment and public utility management	1,600.9	0.42
Borrower J	Water, environment and public utility management	1,577.8	0.41

(III) Distribution of Loans and Non-performing Loans by Product Type

The following table sets forth, as at the dates indicated, the loans and non-performing loans by product type:

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018			As at 31 December 2017		
	Loan amount	Non- performing loan amount	Non- performing loan ratio (%)	Loan amount	Non- performing loan amount	Non- performing loan ratio (%)
Corporate loans	227,687.0	3,617.7	1.59	214,752.5	2,066.9	0.96
Short-term loans	83,997.8	1,646.5	1.96	87,303.8	1,440.6	1.65
Medium and long-term loans	143,689.2	1,971.2	1.37	127,448.7	626.3	0.49
Retail Loans	133,256.0	1,308.6	0.98	113,551.3	1,234.5	1.09
Residential mortgage and personal commercial property loans	60,373.9	259.0	0.43	50,185.5	307.1	0.61
Personal business and re-employment loans	42,998.3	586.8	1.36	38,120.6	534.0	1.40
Other loans	29,883.8	462.8	1.55	25,245.2	393.4	1.56
Discounted bills	20,192.6	–	–	10,042.8	–	–
Total	381,135.6	4,926.3	1.29	338,346.6	3,301.4	0.98

As at 31 December 2018, non-performing loan ratio of corporate loans increased by 0.63 percentage points to 1.59% as compared with the end of the previous year, whereas non-performing loan ratios of retail loans decreased by 0.11 percentage points to 0.98% as compared with the end of the previous year.

(IV) Rescheduled Loans and Advances to Customers

The following table sets forth, as at the dates indicated, the Group's rescheduled loans and advances to customers:

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage of the total loans and advances (%)	Amount	Percentage of the total loans and advances (%)
Rescheduled loans and advances to customers	351.6	0.09	615.6	0.18

(V) Overdue Loans and Advances to Customers

The following table sets forth, as at the dates indicated, the aging analysis of the Group's overdue loans and advances to customers:

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage of the total loans and advances (%)	Amount	Percentage of the total loans and advances (%)
Past due within 3 months	2,027.7	0.53	1,542.3	0.46
Past due for 3 months to 1 year	2,255.7	0.59	1,841.9	0.54
Past due for over 1 year and within 3 years	942.1	0.25	1,417.5	0.42
Past due for more than 3 years	294.5	0.08	200.9	0.06
Total overdue loans and advances to customers	5,520.0	1.45	5,002.6	1.48

As of 31 December 2018, the total overdue loans amounted to RMB5,520 million, representing an increase of RMB517 million from the end of the previous year. Overdue loans accounted for 1.45% of the total loans and advances, representing a decrease of 0.03 percentage points from the end of the previous year.

IV. Analysis of Capital Adequacy Ratio

Since 1 January 2013, the Group has commenced the implementation of the Regulation Governing Capital Management of Commercial Banks (Provisional) (《商業銀行資本管理辦法（試行）》) promulgated by the CBIRC (the former CBRC). The following table sets forth, as at the date indicated, the relevant information of the Group's capital adequacy ratio, among which, the credit risk was measured at weight method, the market risk was measured at standard method and the operational risk was measured at basic indicator approach.

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018	As at 31 December 2017
Core tier 1 capital adequacy ratio (%)	10.95	10.39
Tier 1 capital adequacy ratio (%)	10.96	10.40
Capital adequacy ratio (%)	13.52	13.03
Components of capital base		
Core tier 1 capital:		
Portion of paid-in capital that may be included	10,000.0	10,000.0
Portion of capital reserve that may be included	12,228.8	12,261.2
Surplus reserve and general risk reserve	22,572.2	20,183.5
Unappropriated profit	25,947.3	21,244.0
Non-controlling interests	693.8	561.5
Total core tier 1 capital	71,442.1	64,250.2
Deductible items:		
Goodwill, net of relevant deferred tax liabilities	(440.1)	(440.1)
Other intangible assets (excluding land use rights), net of relevant deferred tax liabilities	(115.7)	(103.8)
Core tier 1 capital, net	70,886.3	63,706.3
Other tier 1 capital:		
Non-controlling interests	92.5	74.9
Net tier 1 capital	70,978.8	63,781.2
Tier 2 capital:		
Tier 2 capital instruments and related premium that may be included	9,000.0	9,000.0
Excessive loan allowances	7,377.4	7,012.6
Non-controlling interests	185.0	148.0
Net capital	87,541.2	79,941.8
Total risk-weighted assets	647,419.3	613,436.6
Credit risk weighted assets	597,565.5	568,017.0
Market risk weighted assets	5,076.5	3,344.4
Operational risk weighted assets	44,777.3	42,075.2

Management Discussion and Analysis

As of 31 December 2018, the capital adequacy ratio of the Group was 13.52%, representing an increase of 0.49 percentage points as compared with the end of the previous year, which was 3.02 percentage points higher than the regulatory requirement of 10.50%. The core tier 1 capital adequacy ratio and tier 1 capital adequacy ratio of the Group were 10.95% and 10.96%, respectively, both representing an increase of 0.56 percentage points as compared with the end of the previous year respectively. At the end of 2018, the steady increase in the capital adequacy ratio of the Group as compared with the beginning of the year was mainly due to the fact that, on one hand, the stable growth in net profit effectively replenished the core tier 1 capital. On the other hand, the size of assets and risk-weighted assets of affiliates were growing, and non-controlling interests have increased. Meanwhile the growth of asset size slowed down and risk-weighted assets grew moderately. Based on the above factors, the increase in net capital was higher than the increase in risk-weighted assets.

According to the Regulatory Requirements on the Information Disclosure Regarding the Capital Composition of the Commercial Banks (《關於商業銀行資本構成信息披露的監管要求》) issued by the CBIRC (the former CBRC), the information concerning the capital composition statements, detailed explanation on relevant items and the main characteristics of the capital instrument of the Reporting Period will be further disclosed in the investor relations column on the website of the Bank (<http://www.cqrcb.com>).

V. Analysis of Leverage Ratio

As at the 31 December 2018, the Group measured and disclosed its leverage ratio in accordance with the Measures for the Administration of the Leverage Ratio of Commercial Banks (Revised) (《商業銀行槓桿率管理辦法(修訂)》).

The following table sets out the Group's related accounting items corresponding with the regulatory items of leverage ratio and the differences between regulatory items and accounting items:

	As at 31 December 2018
(Expressed in RMB million, unless otherwise stated)	
Consolidated total assets	950,618.0
Consolidated adjustments	—
Customer assets adjustments	—
Derivatives adjustment	121.9
Securities financing transactions adjustments	—
Off balance sheet item adjustments	22,737.8
Other adjustments	(555.9)
The balance of assets on and off-balance sheet after adjustments	<u>972,921.8</u>

The following table sets out information of the Group's leverage ratio, net tier 1 capital, assets on and off-balance sheet after adjustments and relevant details:

	As at 31 December 2018
(Expressed in RMB million, unless otherwise stated)	
Assets on the balance sheet (excluding derivatives and securities financing transactions)	944,523.3
Less: tier 1 capital deduction	(555.9)
The balance of assets on the balance sheet after adjustments (excluding derivatives and securities financing transactions)	943,967.4
Replacement cost of various types of derivatives (net of qualified margins)	94.0
Potential risk exposure in various derivatives	121.9
The sum of collaterals deducted from the balance sheet	—
Less: assets receivables formed due to qualified margins	—
Less: the balance of derivative assets formed due to transactions with central counterparties for providing clearing service for the customers	—
Notional principal for sold credit derivatives	—
Less: the balance of sold credit derivatives assets which can be deducted	—
The balance of derivatives assets	215.9
The balance of accounting assets for securities financing transactions	6,000.7
Less: the balance of securities financing transactions assets which can be deducted	—
Counterparty credit risk exposure to securities financing transactions	—
The balance of securities financing transactions assets formed due to securities financing transactions by proxy	—
The balance of securities financing transactions assets	6,000.7
The balance of items off balance sheet	34,060.9
Less: the balance of items off balance sheet reduced due to credit conversion	(11,323.1)
The balance of items off balance sheet after adjustments	22,737.8
Tier 1 capital, net	70,978.8
The balance of assets on and off-balance sheet after adjustments	972,921.8
Leverage ratio (%)	7.30

As at 31 December 2018, the Group's leverage ratio was 7.30%, representing an increase of 0.45 percentage points as compared with the end of the previous year. The increase in the leverage ratio was mainly due to the fact that the increase rate of net tier-one capital was higher than the growth rate of asset size on and off balance sheet.

VI. Segment Information

(I) Summary of Geographical Segment

(Expressed in percentage)	As at 31 December									
	2018		2017		2016		2015		2014	
	County Area	Urban Area	County Area	Urban Area	County Area	Urban Area	County Area	Urban Area	County Area	Urban Area
Deposits	68.61	31.39	67.83	32.17	67.54	32.46	66.52	33.48	66.30	33.70
Loans	46.12	53.88	44.67	55.33	46.98	53.02	47.87	52.13	50.18	49.82
Assets	47.94	52.06	45.65	54.35	48.59	51.41	46.73	53.27	44.86	55.14
Loan-deposit ratio	41.58	106.16	38.94	101.70	40.33	94.70	41.10	88.95	44.74	87.40

(Expressed in percentage)	For the year ended 31 December									
	2018		2017		2016		2015		2014	
	County Area	Urban Area	County Area	Urban Area	County Area	Urban Area	County Area	Urban Area	County Area	Urban Area
Return rate on average total assets	0.96	1.01	1.00	1.10	1.04	1.07	1.06	1.10	1.20	1.23
Net fee and commission income to operating income	7.84	7.99	9.33	9.80	9.84	9.72	5.60	8.08	4.18	6.62
Cost-to-income ratio	33.49	27.52	36.85	31.34	37.51	34.46	35.35	34.01	41.27	35.17

County Area refers to regions other than the Urban Area of Chongqing City. The data of County Area also includes the data of 12 subsidiaries, namely Jiangsu Zhangjiagang CQRC Village and Township Bank Co., Ltd. (江蘇張家港渝農商村鎮銀行股份有限公司), Sichuan Dazhu CQRC Village and Township Bank Co., Ltd. (四川大竹渝農商村鎮銀行股份有限公司), Yunnan Dali CQRC Village and Township Bank Co., Ltd. (雲南大理渝農商村鎮銀行有限責任公司), Yunnan Xiangyun CQRC Village and Township Bank Co., Ltd. (雲南祥雲渝農商村鎮銀行有限責任公司), Yunnan Heqing CQRC Village and Township Bank Co., Ltd. (雲南鶴慶渝農商村鎮銀行有限責任公司), Guangxi Luzhai CQRC Village and Township Bank Co., Ltd. (廣西鹿寨渝農商村鎮銀行有限責任公司), Fujian Shaxian CQRC Village and Township Bank Co., Ltd. (福建沙縣渝農商村鎮銀行有限責任公司), Fujian Fuan CQRC Village and Township Bank Co., Ltd. (福建福安渝農商村鎮銀行有限責任公司), Yunnan Shangri-La CQRC Village, Township Bank Co., Ltd. (雲南香格里拉渝農商村鎮銀行有限責任公司) and Fujian Pingtan CQRC Village and Township Bank Co., Ltd. (福建平潭渝農商村鎮銀行有限責任公司), Fujian Shishi CQRC Village and Township Bank Co., Ltd. (福建石獅渝農商村鎮銀行有限責任公司), and Yunnan Xishan CQRC Village and Township Bank Co., Ltd. (雲南西山渝農商村鎮銀行有限責任公司), as well as the data of Qujing branch of the Bank.

(II) Summary of Business Segment

Operating Income

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December									
	2018		2017		2016		2015		2014	
	Amount	Percentage of Total (%)	Amount	Percentage of Total (%)	Amount	Percentage of Total (%)	Amount	Percentage of Total (%)	Amount	Percentage of Total (%)
Corporate banking business	8,438.0	32.34	8,133.6	33.94	7,252.6	33.48	7,714.8	35.25	6,557.3	33.11
Personal banking business	9,717.1	37.24	8,206.1	34.23	6,476.3	29.90	6,196.8	28.31	6,120.8	30.91
Treasury operations business	7,918.1	30.35	7,607.9	31.74	7,916.2	36.54	7,959.8	36.36	7,106.4	35.89
Unallocated	18.4	0.07	22.4	0.09	16.6	0.08	17.6	0.08	17.9	0.09
Total operating income	<u>26,091.6</u>	<u>100.00</u>	<u>23,970.0</u>	<u>100.00</u>	<u>21,661.7</u>	<u>100.00</u>	<u>21,889.0</u>	<u>100.00</u>	<u>19,802.4</u>	<u>100.00</u>

VII. Analysis of off-Balance-Sheet Items

Off-balance-sheet items of the Group include acceptance bills, letters of credit issued, letters of guaranteed funds issued, receivables under export letters of credit, foreign exchange funds receivables collected, foreign exchange funds collected, and foreign letters of credit and customer-driven wealth management. Among these items, acceptance bills, letters of guarantee issued and letters of credit issued were deemed as key business segments. The balances of acceptance bills, letters of guarantee issued and letters of credit issued were RMB9,626 million, RMB5,241 million and RMB1,110 million respectively.

VIII. Significant Accounting Estimates and Judgments

In determining the carrying amounts of some assets and liabilities and the related profit or loss during the Reporting Period in accordance with its accounting policies, the Group makes estimates and judgments in certain aspects. The Group makes estimates and assumptions based on historical experience and expectations of future events, and reviews them on a regular basis. In addition, the Group needs to make further judgments in respect of the application of accounting policies. The Group's management believes that the estimates and judgments made by the Group reflect appropriately the economic context which the Group was subject to. The major areas affected by the estimates and judgments include expected credit loss measurement, liabilities related to supplementary retirement benefit and early retirement benefit, fair value of financial instruments, scope of consolidation and income taxes.

BUSINESS OPERATION

I. Corporate Banking Business

(I) Corporate Deposits and Loans

The table below sets forth the major operating figures of the corporate banking business and changes thereof:

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2018	For the year ended 31 December 2017	Changes (%)
Net interest income	7,816.6	7,425.4	5.27
Net fee and commission income	594.3	674.2	(11.85)
Other operating income, net	27.1	34.0	(20.29)
Operating income	8,438.0	8,133.6	3.74
Operating expenses	(2,717.0)	(2,800.0)	(2.96)
Impairment losses on assets	(4,261.2)	(2,276.2)	87.21
Profit before tax	1,459.8	3,057.4	(52.25)

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018	As at 31 December 2017	Changes (%)
Segment assets	229,927.1	217,486.7	5.72

In 2018, net interest income from the corporate banking business amounted to RMB7,816 million, representing an increase of 5.27% over the same period previous year. The asset of the corporate banking business increased by 5.72% over the beginning of the year to RMB229,930 million.

The Group strived to expand the corporate deposit market and continued to maintain steady growth in corporate deposits. As of the end of 2018, the balance of corporate deposits (excluding pledged deposits and other deposits) of the Group reached RMB153,936 million, ranking the third in Chongqing, which accounted for 24.98% of the outstanding balance of total deposits of the Group whilst posting a growth of RMB6,080 million or 4.11% as compared with the end of the previous year.

For the loan policy on extending corporate loans, the Group persisted in operating in compliance with laws and abided by the principle. The Group effectively observed the control policy of the country and the local economic operation situation, and expanded its corporate loan business in a prudent, steady and appropriate manner. As of the end of 2018, the outstanding balance of corporate loans (non-discounted) amounted to RMB227,687 million, representing an increase of RMB12,935 million or 6.02% as compared with the end of the previous year. Meanwhile, outstanding non-performing loans amounted to RMB3,618 million and the non-performing loan ratio was 1.59%, representing an increase of RMB1,551 million or 0.63 percentage point as compared with the end of the previous year.

In respect of the structure of loan, in response to the policy of Supply-Side Structural Reform and in adherence to “Three Major Tough Fights” and “Eight Action Plans” in Chongqing, with focus on the construction of infrastructure, the transformation and upgrading of traditional industries and the development of ten strategic emerging industries, the Group focused on extending loans (excluding discounted bills) to the industries such as manufacturing, water conversation, environmental and public utility management, leasing and commercial services, wholesale and retail, production and supply of electricity, heat, gas and water, and real estate, which accounted for 16.67%, 11.15%, 9.80%, 4.99%, 3.90%, 2.17% of the total amount of loans of the Group as of 31 December 2018.

With respect to customer's profile, leveraging on the improving organization structure, product system and the customer management team with comprehensive prime cultivated, the Group remained committed to forging closer collaboration with quality enterprises among the top 500 enterprises in the world, top 500 enterprises of China, top 100 enterprises of Chongqing, industry leaders as well as government institutions whilst continuously maintaining and strengthening its partnership with prime SME customers.

(II) Institutional Business

The Bank continued to strengthen the construction of cooperation channel with functional departments of the Chongqing Municipal Government, the financial industry and institutions at different levels. The Bank launched an online signing system for the pre-sale of commodity housing and became one of the first banks in Chongqing to launch the system. The Bank actively established collaboration platforms in respect of insurance, securities and trust with other banks. The increasing abundance of collaboration channel effectively facilitated continuous stable development of the Bank's corporate banking business. In addition, the Bank was the only financial service bank to handle urban and rural pension insurance for residents in Chongqing City, with 11.2 million people in the city have already paid and been distributed pension insurance through the Bank.

(III) Small and Micro Enterprises Businesses

Small and micro enterprises business was growing steadily. As of 31 December 2018, according to full specifications prescribed by CBIRC, the number of small and micro enterprise loans customers of the Bank (including small and micro enterprises loans according to specifications prescribed by four ministries and commissions of the nation, individual business owners and small and micro enterprise owners business loans, same for the below) amounted to 124,107, representing an increase of 15,451 as compared to the beginning of the year; the outstanding balance of small and micro enterprise loans according to full specifications prescribed by CBIRC amounted to RMB116,590 million (excluding interest receivables), representing an increase of RMB11,046 million or 10.47% as compared to the beginning of the year. The number of small and micro enterprise loans customers (including small and micro enterprises loans according to specifications prescribed by four ministries and commissions of the nation, individual business owners, and small and micro enterprise owners business loans with total individual credit amount below RMB10 million (inclusive), same for the below) with total individual credit amount below RMB10 million (inclusive) amounted to 122,956, representing an increase of 15,570 as compared to the beginning of the year or a year-on-year increase of 15,570. The outstanding loan balance amounted to RMB56,380 million (excluding interest receivables), representing an increase of RMB6,263 million as compared to the beginning of the year. The year-on-year growth rate of loans was 12.49%, 1.20 percentage points higher than the average loan growth rate of the Bank. The non-performing loan ratio of small and micro enterprise loans of the Bank according to full specifications prescribed by CBIRC was 1.92% and the non-performing loan ratio of the Bank was 1.29%, not exceeding the non-performing loan ratio of the Bank by 2 percentage points. In the third quarter of 2018, the annual average effective rate of newly issued small and micro enterprise loans with total individual credit amount below RMB10 million (inclusive) was 6.48%; in the fourth quarter of 2018, the annual average effective rate of newly issued small and micro enterprise loans with total individual credit amount below RMB10 million (inclusive) was 6.24%, which met the monitoring requirements of the CBIRC on interest rates for small and micro enterprise loan. In 2018, the Bank completed the regulatory objectives of “Two Increases and Two Controls” for small and micro enterprises by CBIRC.

Constructed an all-round service network. The Bank established a multi-level small and micro enterprise financial service network covering the whole city. At the headquarter level, the Bank established a micro enterprise finance business line to manage small and micro enterprise loans of the Bank. At the branches and sub-branches level, the Bank set up 912 exclusive loan institutions and allocated more than 2,200 small and micro enterprise loan customer managers. Especially since 2013, 14 small and micro enterprise franchised branches have been set up in industrial parks, professional markets, core business circles and other small and micro customer concentrated areas, further extending the financial service tentacles, providing professional and convenient financial services to small and micro enterprises in time.

Fully promoted scientific and technological innovation. In response to the characteristics of “short, small, frequent and urgent” financing for small and micro enterprises, we fully utilized big data and Internet technology to develop a series of services such as “automatic renewal”, “repayment with borrowing”, “self-service renewal”. All these avoided many sections such as manual investigation, examination and approval, and achieved one-key operation of multiple business, which effectively improved customer experience, capital utilization rate and loan efficiency and benefiting more than 60,000 small and micro customers.

Continuously improved products and services for small and micro enterprises. In 2018, the Bank continued to intensify its innovative efforts of specialization and differentiation, and made important progress in products, processes and services. Firstly, the Bank expanded the pilot of knowledge-based credit loans for science and technology enterprises. On the basis of the original 6 pilot districts and counties, 13 new districts and counties were added to the scope of the pilot. By the end of December 2018, the balance of knowledge-based credit loans for science and technology enterprises amounted to RMB353 million, totaling RMB639 million and accounting for 66% of the city’s market share. Secondly, the Bank actively supported the national strategy of rural revitalization. On the one hand, the Bank continued to increase the investment of “Rural Primary-secondary-tertiary Industry Consolidation Loan” and actively supported the national strategy of rural vitalization. By the end of December 2018, RMB1,193 million of “Rural Primary-secondary-tertiary Industry Consolidation Loan” were invested, accounting for 44% of the city’s market share. On the other hand, the Bank focuses on the implementation of the strategy of rural vitalization and launched the “Supporting Agriculture, Innovation and Investment Loan” products. By the end of December 2018, RMB117 million of “Supporting Agriculture, Innovation and Investment Loan” were invested with the balance of RMB117 million, accounting for 74% of the city. At present, the market share of the above three small and micro products has remained the first in Chongqing.

(IV) International Business

The international business maintained a robust growth. In 2018, the international settlement amounted to USD6,807 million (including cross-border settlement of RMB1,501 million), representing a year-on-year increase of 26.38%; foreign exchange settlement amounted to USD2,911 million, a year-on-year increase of 7.42%; the on-balance-sheet and off-balance-sheet trade financing balance amounted to USD1,500 million, representing a decrease of USD84 million as compared to the beginning of the year. The number of foreign exchange customers of the Bank reached 1,057, representing an increase of 90 customers from the beginning of the year, and 360 of which were active customers, representing an increase of 15 customers from the beginning of the year. Transaction volume of foreign exchange transaction ranked the first among local corporate banks in Chongqing, of which the transaction volume of foreign currency interbank borrowings was USD16,678 million, representing a year-on-year increase of 33.87%. The transaction volume of inter-bank foreign exchange swaps and foreign exchange settlements amounted to USD2,927 million, representing a year-on-year increase of 35.53%. The interbank collaboration was enhanced. The Bank has established correspondent banking relationship with 569 banks at home and abroad and has obtained USD8,500 million of financial institution credit at home and abroad. Derivatives counterparties increased to 27, overseas disbursement counterparties increased to 33 and forfeiting counterparties increased to 32. The Bank actively promoted product innovation and new business implementation and became the first bank to launch six new businesses of import licensing of the “Land-Sea New Channel”, centralized operation and management of foreign exchange funds of multinational corporations, agency foreign exchange forward settlement, export invoice financing under cross-border RMB, non-bank lending as well as “Supporting Agriculture” cross-border financing, which added another momentum for business development.

In addition, the Bank continued to improve its compliance management of foreign exchange business, and the Bank was rated as A Class in the Foreign Exchange Comprehensive Appraisal from 2016 to 2018 for three consecutive years conducted by the Chongqing Branch of the State Administration of Foreign Exchange. The Bank was the only local corporate bank in Chongqing that received A Class grading.

II. Retail Banking Business

(I) Retail Deposits and Loans

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2018	For the year ended 31 December 2017	Changes (%)
Net interest income	8,848.7	7,429.0	19.11
Net fee and commission income	848.2	754.5	12.42
Other operating gain, net	20.2	22.6	(10.62)
Operating income	9,717.1	8,206.1	18.41
Operating expense	(3,343.0)	(3,244.7)	3.03
Impairment on assets	(1,388.2)	(1,008.5)	37.65
Profit before tax	4,985.9	3,952.9	26.13

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018	As at 31 December 2017	Changes (%)
Segment assets	129,592.9	104,576.7	23.92

Personal banking business recorded a profit before tax of RMB4,986 million, increased by 26.13% year-on-year.

Retail deposits recorded a continuing increase. Backed by the vibrant economic growth in Chongqing, the Bank took full advantage of its exceptional regional brand recognition and strived to align its brand value services with key marketing campaigns and social responsibility, with an emphasis on the business promotion and sales during key business hours of peak seasons, on high-end major customers and key projects in target markets. The Bank organized a large public welfare campaign named “serving fellow townsman and delivering geniality along the way back home” (情暖回鄉路、服務眾鄉親) during the Spring Festival travel rush, “Financial Knowledge Enters Ten Thousand Households” (金融知識進萬家), “Inclusive Financial Services, and Rooting Wealth Management Awareness”, (普惠金融,紮根行動), in communities as part of the marketing campaigns, and made an effort in unifying services for better reputation. The Bank also constantly deepened the transformation of its branches with 70 newly established model branches of transformation in an effort to improve the individual productivity for each branch. The retail deposits amounted to RMB454,680 million, representing an increase of RMB39,864 million or 9.61% over the end of the previous year. The Bank remained unrivalled among its regional counterparts in terms of the amount, annual growth and market share of retail deposits. In 2017, with the approval from the Ministry of Finance and the Central Bank, the Bank was qualified for underwriting of government saving bonds in certificate and electronic forms from 2018 to 2020.

Customer structure is being improved. Through enriching the value-added services for VIP customers, holding customer activities on a regular basis, facilitating the systematic establishment of customer relations management, the number of mid to high-end customers of the Group kept increasing. The number of customers increased by 158,500 or 12.46% as compared with the beginning of the year, and the deposit increased RMB33,040 million.

The Bank achieved a solid growth in retail loan. With a view to becoming the largest and the best local retail bank, the Bank insisted on business for small and micro enterprises, optimized the credit structure, stressed product innovation, implemented differentiated credit services and continued to support inclusive finance. It constantly consolidated the advantageous position of retail loan business and created an internet financial platform based on the existing advantageous channels including retail loan centres and operation outlets, and actively promoted products such as “Tiny Loan” (微粒貸) and “Cloud Loans for Micro Enterprises” (雲微貸). As at 31 December 2018, retail loan of the Group increased by RMB19,705 million to RMB133,256 million, the stock amount of retail loan also ranks in the top list of the local market.

(II) Bank Cards

1. Debit Card Business

The number of new debit cards recorded a stable growth. As of 31 December 2018, the total number of debit cards issued by the Bank reached 20,263,900; the consumption related thereto amounted to RMB99,071 million. Specially, nostalgia series of debit cards with the function of subsidizing foreign remittance fees gained remote deposits of RMB150,361 million in 2018.

2. *Credit Card Business*

The Bank made persistent efforts to the innovation of credit card business, and was committed to branding credit card business with distinctive features and optimized the two main product lines of standard cards and characteristic cards. Rapid progress has been made in organizational structure, system construction, business innovation and customer service. For adjustment of organizational structure, the Bank concentrated on financial technology innovation, set up a product research and development team to create a competitive product “digital credit card”, to achieve the intelligentization of the credit card business risk control and process, and extended credit card network application channels to attract new customers. For strengthening of system construction, the Bank carried out the relocation of core systems in a steadily manner and became the first financial institution of its kind in China to commence the in-house research and development of credit card core system. For business innovation, the Bank launched asset business outbound staging, implemented the list-based proactive marketing for quality customers, launched the credit card cash advance and instalment function to provide more convenient user experiences for customers. For optimisation of customer service, the Bank continued to take product life cycle of Jiangyu credit card as the main line to promote the expansion of new customers, stimulation of existing customers and other marketing efforts. The Bank also continued to carry out promotional activities to create a favourable environment for use of credit cards and encourage customers to use credit cards. Based on the existing business, the Bank focused on sustainable development, complied with market demand, continued to expand Internet-based electronic service channels, and continued to cooperate with well-known enterprises in Chongqing, at home and abroad to improve credit card financial services and create opportunities for sustainable development.

As of 31 December 2018, the accumulative total number of credit cards issued by the Bank accumulated to 673,800, representing an increase of 109,100 or 19.32% over the end of the previous year; while the number of valid activated cards was 426,600, representing a year-on-year increase of 12.65%. In 2018, the cumulative number of consumption related to credit cards amounted to 11,698,400 and the spending amount was RMB29,278 million. Credit card issuance and transaction scale continued to develop steadily.

(III) Agency Business

The Bank has been expanding its intermediary business product portfolio of retail banking and recorded stable increase in income. In 2018, the Bank's agency fund business developed rapidly and it served as the agent of 117 foundations with sales of RMB42,236 million and an income of RMB42,399,900 from intermediary business. The operating income from the distribution business of insurance products was RMB356 million and an income of RMB16,351,700 from intermediary business was recorded. The operating income from the distribution business of physical rare metals was RMB31,262,300 and an income of RMB2,028,200 from intermediary business was recorded.

III. Financial Market Business

The following table sets forth the major operating figures of the financial market business of the Group and the changes thereof:

Expressed in RMB million, except for percentages Item	As of 31 December 2018	As of 31 December 2017
Net interest income	3,348.6	6,646.3
Net fee and commission income	623.3	866.9
Net trading gain or loss	3,807.3	(36.8)
Other net operating (losses)/gain	138.9	131.5
Operating income	7,918.1	7,607.9
Operating expense	(2,105.1)	(2,284.8)
Impairment losses on assets	(546.5)	(425.9)
Net gain resulted from derecognition of financial assets at fair value through other comprehensive income	39.6	N/A
Net gain resulted from derecognition of financial assets measured at amortised cost	1.8	N/A
Net losses from disposal of available-for-sale financial assets	N/A	25.1
Net gain on disposal of debt Securities classified as receivables	N/A	4.8
Profit before tax	5,307.9	4,927.1
	31 December 2018	31 December 2017
Segment assets	581,293.3	575,007.5

Management Discussion and Analysis

In 2018, the Chinese economy slowed down but progressed towards stability and positive development. The financial market remained stable. Under a favourable external environment, increasingly stricter regulatory policies and a series of documents regulating the financial market were promulgated. With high-handed regulation, the effect of removal of leverage and bubbles has begun to show. Market risk appetite declined, and capital business was facing tough challenges because scale and scope of investment were restricted. In this regard, the Bank withstood the pressure to respond flexibly, and took the initiative to have a forecast of the market and make arrangement in advance. It also flexibly adjusted its business structure according to the objective environment, so as to secure the steady growth in capital business in a compliant manner.

(I) Segment Assets

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage %	Amount	Percentage %
Financial investments	311,755.9	53.64	316,790.7	55.09
Financial assets held under resale agreements	6,000.7	1.03	2,443.7	0.42
Cash and balances with Central Bank	85,935.2	14.78	97,012.1	16.87
Deposits and placements with banks and other financial institutions	170,751.6	29.37	148,021.8	25.74
Discounted bills	5,352.8	0.92	3,637.5	0.63
Other assets	1,497.1	0.26	7,101.7	1.25
Total assets	<u>581,293.3</u>	<u>100.00</u>	<u>575,007.5</u>	<u>100.00</u>

As of 31 December 2018, the total size of operating assets was RMB581,293 million, representing an increase of RMB6,286 million, or 1.09%, as compared with the end of the previous year. In particular, financial investments decreased by RMB5,035 million, or 1.45 percentage points in proportion to total assets; cash and balances with Central Bank decreased by RMB11,077 million, or 2.09 percentage points in proportion to total assets; financial assets held under resale agreements increased by RMB3,557 million, or 0.61 percentage points in proportion to total assets; deposits and placements with banks and other financial institutions increased by RMB22,730 million, or increased by 3.63 percentage points in proportion to total assets; discounted bills increased by RMB1,715 million, or 0.29 percentage points in proportion to total assets.

(II) Financial Investments

1. Distribution of Financial Investments

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage %	Amount	Percentage %
Financial assets at fair value through profit or loss	15,094.5	4.84	519.2	0.16
Financial assets at fair value through other comprehensive income	7,096.7	2.28	N/A	N/A
Financial assets measured at amortised cost	289,564.7	92.88	N/A	N/A
Available-for-sale financial assets	N/A	N/A	165,084.2	52.11
Held-to-maturity financial investments	N/A	N/A	72,444.2	22.87
Financial investments classified as receivables	N/A	N/A	78,743.1	24.86
Total	311,755.9	100.00	316,790.7	100.00

Note:

- (1) Financial investments include assets measured at fair value through profit or loss, investments measured at fair value through other comprehensive income, investments measured at amortised cost, available-for-sale financial investments, held-to-maturity financial investments, financial investments classified as receivables. It does not include equity investment.

In 2018, the Group implemented the classification management of its financial investments according to the requirements of IFRS 9 and based on business model and contractual cash flow characteristics. Apart from taking financial assets at fair value through profit or loss and financial assets measured at amortised cost as the major investment targets, the Bank took the market condition into consideration and moderately invested in certain financial assets at fair value through other comprehensive income. As of 31 December 2018, financial assets measured at amortised cost of the Group amounted to RMB289,565 million, accounting for 92.88% of total financial investments. Financial assets at fair value through profit or loss amounted to RMB15,094 million, accounting for 4.84% of total financial investments. Financial assets at fair value through other comprehensive income amounted to RMB7,097 million, accounting for 2.28% of total financial investments.

2. Distribution of Financial Investments by Credit Rating

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage %	Amount	Percentage %
AAA	27,821.9	8.92	18,043.1	5.70
AA	13,354.7	4.28	10,620.6	3.35
A and below	267.7	0.09	108.2	0.03
Unrated	270,311.6	86.71	288,018.8	90.92
Total	311,755.9	100.00	316,790.7	100.00

In 2018, according to the policy guidance of the central government on risk prevention and de-leveraging, the Group continued to further analyse on the policy and market. With the expectation of a macro situation in which prudent monetary policy and deleveraging measures will be maintained, the Group determined the bond investment strategy of “risk prevention, appropriate allocation, delicate selection”.

With respect to operation, given the decreasing interest rate in the interbank market and frequent credit risk events, the main objective of the strategy was to enhance the prevention of credit risk and liquidity risk, to select medium-term bonds with better quality and higher coupon rate at higher interest rate for investments as well as increase in holdings of government bonds, debt securities issued by policy banks and bonds issued by local government with better liquidity and AAA rating.

As of 31 December 2018, financial investment with a rating of AA and above increased by RMB12,513 million, or 4.15 percentage points in proportion to total financial investments as compared with the end of the previous year, while unrated financial investments decreased by RMB17,707 million, or 4.21 percentage points in proportion to total financial investments as compared with the end of the previous year. Unrated financial investment are mainly government bonds, public sector bonds, quasi-government bonds, certificate treasury bonds and wealth management products issued by financial institutions.

3. Distribution of Financial Investments by Remaining Maturity

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage %	Amount	Percentage %
Within 3 months	34,656.8	11.12	86,751.9	27.38
3 to 12 months	79,576.7	25.53	91,823.2	28.99
1 to 5 years	125,725.7	40.33	109,948.2	34.71
Over 5 years	71,796.7	23.02	28,267.4	8.92
Total	311,755.9	100.00	316,790.7	100.0

As of 31 December 2018, the Group's financial investments with a remaining maturity of less than 12 months decreased by RMB64,342 million, or 19.72 percentage points in proportion to total financial investments from the end of the previous year. The Group's financial investments with a remaining maturity of over 5 years increased by RMB43,529 million, or 14.10 percentage points in proportion to total financial investments from the end of the previous year. The Group's financial investments with a remaining maturity of 1 to 5 years increased by RMB15,778 million, or 5.62 percentage points in proportion to total financial investments from the end of the previous year. These are mainly due to the Group's improvement in the maturity structure of the investment portfolio given a proper build-up of investments in long-term debt securities with higher interest rates and relatively higher investment value in accordance with the changes in the bond market and the reasonable allocation of the maturity and yield of its investment portfolio.

4. Holding of Financial Bonds

Financial bonds refer to the marketable securities issued by policy banks, commercial banks and other financial institutions that are to be repaid pursuant to a pre-determined schedule. As of 31 December 2018, the carrying value of the Group's financial bonds amounted to RMB50,666 million, which mainly consisted of the financial bonds issued by policy banks.

The table below sets out the top ten financial bonds in terms of nominal value held by the Group as at 31 December 2018.

Expressed in RMB million, except for percentages

Name of debt securities	Nominal value	Interest rate per annum	Maturity date	Impairment
Debt securities issued by policy banks in 2018	4,500.0	4.88	09/02/2028	—
Debt securities issued by policy banks in 2018	3,000.0	4.69	23/03/2023	—
Debt securities issued by policy banks in 2017	2,000.0	4.30	21/08/2024	—
Debt securities issued by policy banks in 2018	2,000.0	4.04	06/07/2028	—
Debt securities issued by policy banks in 2017	1,000.0	3.83	06/01/2024	—
Debt securities issued by policy banks in 2017	1,000.0	4.39	08/09/2027	—
Debt securities issued by policy banks in 2018	1,000.0	4.37	25/05/2023	—
Debt securities issued by policy banks in 2018	1,000.0	4.46	02/04/2021	—
Debt securities issued by policy banks in 2018	1,000.0	4.73	02/04/2025	—
Debt securities issued by policy banks in 2017	<u>1,000.0</u>	<u>4.44</u>	<u>09/11/2022</u>	<u>—</u>

(III) Assets Management Business

In 2018, the Bank focused on the philosophy of “Strong Management, Risk Control and Steady Development”, and firmly promoted the transformation of wealth management business according to the new regulatory requirements. The Bank strengthened product innovation and successfully launched a number of net-value financial management products with the balance at the end of the year exceeding RMB10 billion, and steadily increased the scale of open-end products with the balance at the end of the year exceeding RMB38 billion. The Bank adjusted the product structure and took the initiative to depress interbank and guaranteed wealth management products. The Bank strengthened the internal control management, improved the system construction, information disclosure, liquidity management, valuation and accounting, and constantly strengthened the support of science and technology, actively guarded against all kinds of risks, and promoted the sustainable and steady development of the Bank’s wealth management business.

By the end of December 2018, the outstanding balance of wealth management products amounted to RMB125,102 million, representing a decrease of RMB19,124 million or 13.26% over the end of the previous year, mainly due to the active reduction of guaranteed and interbank wealth management in accordance with the new regulatory regulations.

(IV) Investment Banking Business

In 2018, focusing on the working ideas of “Strong Management, Risk Control and Steady Development”, the investment banking department utilized its investment banking qualification, gave full play to the advantages of linkage, continued to enhance innovation, accelerated in-depth development in investment banking business and steadily promoted all business. The Bank successfully completed the issuance of the Bank’s first ordinary financial bond with the amount of RMB3.00 billion. The issue price was significantly lower than the market interest rate of similar bonds in the market. The Bank successfully issued the first small and micro enterprise loan special financial bonds of the Bank with the amount of RMB3.00 billion. The issue price was the lowest among financial bonds of the urban commercial banks and rural commercial banks issued in 2018. The Bank participated in the issuance of 7 bonds as lead underwriter with the amount of RMB1,205 million, and successfully obtained the qualification of independent lead underwriter (Type B) under bond underwriting business. We participated in the issuance of 46 financing instruments of non-financial enterprise debt as underwriter with the amount of RMB12,154 million. We also participated in 20 investment banking business including debt financing plan and investment in non-standard creditor’s assets with total amount of RMB4,753 million. At the same time, the Bank proactively recruited high-quality talents with abundant business experiences in investment banking industry. The team will continue to recruit talents and strengthen internal control, which will enhance the professional standard of the investment banking business.

(V) Asset Custodial Business

As of the end of the Reporting Period, the asset custodial scale was RMB155,819 million. During the Reporting Period, no material custody risk events occurred in the Bank.

IV. Distribution Channels

(I) Physical outlets

Operating outlets are the primary distribution channels of the Bank. As at 31 December 2018, the Bank had 1,775 branches of various kinds, including the headquarter and business department, 6 branches, 36 tier-one sub-branches, 108 tier-two sub-branches, 2 community branch outlets and 1,621 branch outlets, among which Qujing Branch in Yunnan became the first cross-region branch of a rural commercial bank in the PRC. The network of branches and sub-branches covers all the 38 administrative districts and counties of Chongqing with 1,461 distribution outlets in the County Area of Chongqing, covering all the blank areas in Chongqing and with 312 outlets in the city's urban area.

The Bank has put the construction of distribution channels into its medium and long-term strategic development plan and stepped up optimising the layout of outlets and restructuring to improve its service coverage, service capabilities and operational efficiency. In 2018, the Bank relocated 20 existing branches and refurbish 80 existing branches.

(II) Self-service Banking

In order to expand the scope of customer services and provide customers with more convenient services, as at 31 December 2018, the Bank established 170 24-hour self-service centers and the number of ATMs and self-service inquiry terminals reached to 4,854 (including Qujing City). The proportion of machine to outlet was nearly 2.73:1, among which the number of ATMs put into use amounted to 3,998 units and self-service inquiry terminals put into use amounted to 856 units.

The Bank continued to deepen the basic financial services in rural areas and effectively established the “last mile” of financial services in rural areas. As at 31 December 2018, 531 convenient rural financial self-service centres had been established and commenced on-line operation across the organization. As such, the Bank extended its financial service coverage whilst bringing convenience and benefits to the people in rural area. It won widespread recognition from the local government and the general public, achieving both social and economic benefits.

(III) Electronic Internet Finance

The Group, being fully aware of the significance of the function of electronic internet finance business, leveraged its comprehensive electronic internet finance business to establish an internet finance platform and build an all-rounded electronic internet finance service system, in the hope of continuously exploring convenient finance service. In the meantime, the Bank continued to improve the brand awareness and influence of its electronic internet finance brand, which further improved customer satisfaction.

1. *Mobile Banking*

The Group continued to innovate its mobile banking, launched encrypted SMS authentication for mobile bank card, login pattern password/fingerprint password, as well as services and functions for the convenience of the customers including card-free cash withdrawal, phone recharge, school bill payment, payment of cable bill, traffic fines, ETC top-up, agency purchase of insurance, outlet reservation and queuing, etc. to improve customer viscosity and satisfaction with bank mobile payments.

As of 31 December 2018, the number of mobile banking customers of the Bank reached 8,241,400, representing an increase of 1,425,600 new customers, or 20.92%, as compared to the end of the previous year. The aggregate number of financial transactions for the year amounted to 62,048,600, and the amount of transactions was RMB1,006,014 million.

2. *WeChat Banking*

The Group also launched a corporate WeChat banking and a new personal WeChat banking. Corporate WeChat banking was equipped with bank reconciliation, account enquiry, to-do-list notice, business processing guidance and other functions, which provided corporate customers with convenient business process and effective information access. With a customer-oriented approach, new personal WeChat banking created an innovative “all-around comprehensive service platform integrating financial service and living service” and improved the interactive model of WeChat banking and UI Style, which upgraded the operational and visual experience of customers. As of 31 December 2018, WeChat banking has attracted the attention of 681.2 thousand customers, with a total of 14,683.1 thousand messages received.

3. *Internet Banking*

(1) *Corporate internet banking*

The Group continued to carry out the direct connection and customer service between the Bank and the enterprises and actively cooperated with various trading centre in districts/counties to continuously promote electronic tendering system. As of 31 December 2018, the number of customers of the Bank reached 140 and there were 21 more customers of direct connection and access between the Bank and the enterprises which increased by 17.65% over the end of the previous year.

The Bank built the corporate internet banking for small and micro enterprises and created internet banking and mobile banking suitable for small and micro enterprises, so as to realize the functions of transfers and remittances, corporate wealth management on mobile banking for small and micro enterprises, and provide efficient, convenient and safe fund settlement services for small and micro enterprises, which was officially launched in December 2018.

As of 31 December 2018, the number of corporate internet banking customers of the Bank increased by 56.64% over the end of the previous year to 80.2 thousand, representing an increase of 29.0 thousand in this year; 7,634.2 thousand financial transactions have occurred in this year; the amount of transactions was RMB784,492 million.

(2) Personal internet banking

The Group has been actively engaged in improving customers' experience. It has strengthened security for E-banking to improve the security in using E-banking. The Group carried out network payment business cooperation in a compliant manner and took the lead in establishing a new generation of network payment business platform, realizing rapid development of payment service providers through one-point access mode. In the meantime, the Group continued to strengthen risk control of online payment business, entered into in-depth cooperation with third party payment service providers and improved the risk control of quick payment. The Group enriched the functions of the products, in order to meet the multi-layered and diversified customers' needs for financial services.

In March 2018, the electronic internet finance business was awarded "Advanced Unit of One Point Connection Project 2017" by Rural Credit Banks Funds Clearing Center.

As of 31 December 2018, the number of personal internet banking customers was 3,012.2 thousand, representing an increase of 237.2 thousand, or 8.55%, over the end of the previous year. 303,887.9 thousand financial transactions have occurred in the year; the amount of transactions occurred in the year was RMB247,371 million.

4. Local Living Service Platform

Focusing on the promotion of the online and offline e-commerce living service platform, and through the integration of mobile payment of the Bank, Alipay and WeChat payment channels, the Group launched Yukuaifu (渝快付) QR code payment service to provide customers with a variety of shopping payment methods. As of 31 December 2018, the platform had 44,500 users. Number of transactions in the year reached 2,705.1 thousand, with a transaction amount of RMB441 million.

5. Mobile Integrated Terminal

The Group enriched the business content of the mobile integrated terminal to optimize business process and further increase service capability. The mobile integrated terminal platform realized the opening of debit cards, the signing and termination and maintenance of electronic channels, account management, loan application, deduction application, credit card application and advertising functions, and completed the village bank loan application and other functions. Through expansion of mobile integrated terminal, customer demands were adequately met. The Group strived to extend the coverage to marketing, access and operation to further expand the scope and improve the ability of customer service of the Bank.

As of 31 December 2018, the number of contracted clients of mobile integrated terminal was 1,000.4 thousand among which 294.1 thousand were contracted debit card users, 361.4 thousand were mobile banking users, 121.1 thousand were personal online banking users, and 223.8 thousand were contracted SMS service users.

6. Telephone and SMS Banking

The service capacity of telephone banking of the Group continuously strengthened. The Bank established the telephone banking prediction model to enhance the accuracy of prediction of incoming call data. The Bank also strengthened telephone data monitoring and analysis and improved the site management to enhance the quality of telephone banking services and strengthen the business support. As of 31 December 2018, the Bank had offered services to 8,642.2 thousand customers via telephone banking. The growth of SMS banking is promising. As of 31 December 2018, the contracted accounts of SMS amounted to 11,548.6 thousand, while contracts signed by high-end customers accounted for 79.34%.

The electronic internet finance of the Group achieved sustainable and effective development through relentless efforts and bold innovations. As of 31 December 2018, the substitution rate of E-banking account transactions of the Bank reached 92.89%, representing an increase of 2.77 percentage points as compared to the end of the previous year.

(IV) Direct Sales Banking

The direct sales banking platform of the Group is a platform utilising internet to carry out integration of direct sales business of banks' financial products. It is a breakthrough of banks' reliance on outlet expansion to expand business scale and adopts the mode of internet finance for trans-outlet and trans-regional sales of bank products. The direct sales banking provides customers with "Jiangyu FOF" (江渝基金寶) product, fund products, intelligent deposits product, bank wealth management product, payment of living expenses, loan application and other financial services through its official website, mobile banking client, WeChat official accounts and other channels. As of 31 December 2018, the direct sales banking had 790.7 thousand users with 97.6 thousand transactions and aggregate transaction amount of RMB2,246 million.

V. Principal Subsidiaries

CQRC Village and Township Bank is a general name for the village and township banks established by the Bank as a major promoter. The establishment of village and township banks is of great significance to the performance of social responsibility, broadening and deepening the service to new rural construction, exploring the development of business growth and establishing a sustainable model for the growth of profit of the Bank. As of the end of the Reporting Period, the Bank has established 12 CQRC Village and Township Banks with aggregate capital amounting to RMB3,454 million and the outstanding balance of deposits and loans in aggregate amounting to RMB1,535 million and RMB2,210 million, respectively.

In December 2014, CQRC Financial Leasing Co., Ltd. was incorporated with the current registered capital of RMB2,500 million to be mainly engaged in financial leasing related business. The Bank was the major promoter and held 68.00% of its shares.

VI. Information Technology

In 2018, the information technology work of the Bank was guided by the principle of “Independent and Controllable, Sustainable Development and Technological Innovation”, and continuously intensified the supporting role of information technology in the development of banking business. In the whole year of 2018, each important information system of the Bank was operating stably; no unplanned system interrupt accidents occurred; and the network operation was stable during the year.

(I) Technological Governance

In 2018, a total of six working meetings were organized and convened by the IT Strategic Development Committee of the Bank, to consider and approve 22 reports and proposals including the Proposal on Project Construction Plan for 2018, Proposal on Face Recognition Project, Proposal on Equipment Selection Plan for Data Center System in Yu Zui, which effectively performed the decision-making function of the IT Strategic Development Committee and understood the direction and strategy of information technology development. The Bank continued to optimize the personnel structure, strengthened the functions of various departments, captured the IT personnel and introduced them into work through multiple channels such as school recruitment and social recruitment, and continuously intensified the personnel training mechanism at the same time to form the benign technology team construction mechanism and broadened the career development space for the information technology personnel; improved the construction of assessment mechanism, introduced and implemented an outsourcing supplier assessment system, continuously standardized the project quality review mechanism, intensified the demand guide and test review and intensified the information technology project life-cycle management.

(II) Information Security Guarantee

The Bank adopted three-layer risk prevention system structure, implemented the information safety guarantee work; integrated the operation and maintenance system, standardized the operation process, strengthened the skills of maintenance personnel, implemented the site duty, to ensure the operation and maintenance efficiency of the overall system and ensure emergency response capabilities; continuously optimized monitoring capabilities, set up ECC central control center, integrate automatic operation and maintenance platform, sorted out digital security specifications, and steadily improved the level of technical services; implemented daily security loophole monitoring of the system and carried out the rolling inspections and special inspections on the risks in the information security and carried out the key inspections on holidays and festivals and during the peak season of marketing to ensure the comprehensive, safe and stable operation of the information system.

(III) Business Continuity Management

The Bank paid high attention to the business continuity management, and continuously optimized and perfected the contingency plan for the business continuity. On 20 October 2018, the Bank's Yu Zui Data Center was officially completed and put into operation, with total area of over 6,000 square meters. The Center followed the national standard of A-class computer room and the international T3+ standard design, fully considered the anti-disaster capability of the structure, implemented hardware backup and redundancy in key equipment, adopted a stronger management mechanism, control means, accident monitoring and security measures. The overall design was advanced and practical, meeting the requirements of safe operation and future business development. It will provide efficient and advanced information and data services for the Bank and its holding subsidiaries, greatly enhance the scientific and technological support capacity of information construction, and provide a solid scientific and technological guarantee for the rapid development of various businesses. In 2018, emergency drill, the drill of three-level network switch and other service continuity emergency drills were completed as scheduled, which fully verified the effectiveness of relevant emergency plans. The Bank improved the on-site personnel's emergency operation proficiency and disaster awareness, and further optimized the organizational structure and operational procedures of the emergency drill.

(IV) Information System Construction

The Bank strived to "online and offline" systems, actively promoted the implementation of smart banking platforms, accelerate the implementation and application of advanced technologies such as big data platforms, artificial intelligence, private cloud platforms and distributed systems, integrated electronic channels, effectively enhanced the user experience, promoted business intelligence reform, and provided strong support for rapid business development and innovation. The Bank continued to optimize the new core system, improved the efficiency of business processing, optimized the transaction process and accelerated the realization of online and offline conversion. In 2018, the Bank completed the construction of risk data collection construction project, seal management system, counter paperless project, government bonds business project, the first phase of credit card relocation project, Yukuai Loan project, providing strong support for the business and management of the Bank to improve steadily.

VII. Employees and Human Resources Management

(I) Basic Information on Employees

As of 31 December 2018, the Bank had 15,688 regular employees, 11,296 of whom held bachelor's degree or above, representing 72% of all the Bank's regular employees. In addition, the Bank had 490 dispatch workers, 730 internally retired employees and 5,922 retired employees.

(II) Overview of Human Resources Management

In 2018, the Bank actively explored new ideas and approaches in strategic planning, open selection, refined management and systematic cultivation of human resources, which led to continuous optimization of staff structure, significant improvement of team vitality and continuous enhancement of talent efficiency.

Optimizing the team structure. The Bank optimized the allocation of human resources, carried out “competition and two-way selection” of employees, guided the rational flow of human resources to the front-end marketing, and further optimized the staff structure. With the promotion of the project of improving the quality of all staff, the number of staff with bachelor's degree or above increased by 2 percentage points compared with the beginning of the year.

Improving the organizational structure. The Bank sped up the adjustment of the organizational structure, set up new departments (business teams) such as financial innovation, major customers, financial market business management, direct sales banking, asset operation and management, etc. to further clarify the boundaries of responsibilities and provide organizational framework guarantee for promoting the transformation and development of the Bank.

Promoting talent development. The Bank increased the introduction of talents such as financial innovation and direct sales banking, and promoted the training and practice of excellent young talents and the rotation and practice of management trainees. With innovative education training mechanism, the Bank launched the “Big Lecture” for senior management, started a new round of three-year rotation training for mid-level management personnel, and carried out 2,116 offline training sessions covering 155,600 attendances.

FINANCIAL BUSINESS IN COUNTY AREA

County Area is the principle base where the Group carries out Sannong financial services. The financial business in County Area has been a long-term strategic focus, and also one of the Group's major sources of revenue. The Group provides diversified financial services for customers in County Area through five branches, 26 first level sub-branches, 91 secondary level sub-branches and their 1,339 distribution outlets, two community branch outlets as well as 12 village and township banks located in County Area. During the Reporting Period, the Group took advantage of interactive linkage between urban and rural areas (城鄉聯動優勢), deepened internal reforms, actively innovated products, and strived to enhance the financial service in County Area, all of which have led to the rapid growth of financial services in County Area.

As of 31 December 2018, the loan balance of the financial business⁽¹⁾ of the Group in County Area amounted to RMB175,781 million, representing an increase of RMB24,641 million, or 16.30%, over the end of the previous year. In particular, the corporate loan balance of the financial business in County Area amounted to RMB76,296 million which accounted for 30.78% of the corporate loan balance of the Group, representing an increase of RMB10,175 million, or 15.39%, over the end of the previous year. The personal loan balance of the financial business in the County Area amounted to RMB99,485 million, representing an increase of RMB14,466 million, or 17.01%, over the end of the previous year, accounting for 74.66% of the personal loan balance of the Group. The deposits balance in County Area amounted to RMB422,725 million, representing an increase of RMB34,624 million, or 8.92%, over the end of the previous year.

The Bank firmly established the new development concepts, adhered to the requirements of high-quality development, and supported the rural revitalization strategy as the general focus for Sannong financial services. Adhering to the general keytone of making progress while maintaining stability and based on the new industries, new business normal and new dominance in county areas, channelling of financial resources was propelled to enhance the efficiency of Sannong financial services. As of 31 December 2018, the outstanding balance of agricultural loans⁽²⁾ of the Group amounted to RMB155,056 million.

Notes:

- (1) The loan of the financial business in County Area refers to loans released by branches of the Bank in Chongqing City, other than loans released in major districts. It also includes loans released by 12 village and township banks and Qujing Branch.
- (2) The agricultural loans refer to loans to farmers, loans to rural enterprises and various organizations, loans to urban enterprises and various organizations directing to activities related to agriculture, forestry, husbandry and fishery industry as well as supporting agriculture and rural development in accordance with the "Special Statistics System of Agricultural Loans" (《涉農貸款專項統計制度》) (Yin Fa [2007] No. 246).

I. Reform and Innovation

(I) Management Reinforcement

During the Reporting Period, the Bank has actively and steadily pushed forward the construction of Sannong financial service system, with an aim to improve capability and level of such service. A meeting was held by Sannong Financial Service Committee of the Board to consider Sannong financial service plan of the year, and focus on reinforcing the strategic move on Sannong financial services. Financial Service Committee for Sannong and Poverty Alleviation under senior management reviewed the proposals in relation to Sannong service and targeted poverty alleviation, to strengthen the guidance and support for Sannong and poverty alleviation of the Bank. By introducing Sannong Business Management Department to functional departments and leading Sannong financial services among the Bank, the Bank set up secondary departments or professional posts under the corporate and personal banking business lines to be responsible for the "Sannong" business marketing guidance, product innovation, etc. It has set up specialised institutions in respective county branches, to be responsible for the specific promotion of "Sannong" business. In addition, the Bank further regulated and enhanced the agriculture-related credit approval procedures to improve service quality and performance.

(II) Strengthening Incentives

The Bank further enhanced the capacity of Sannong financial services, solely prepared the credit plan for the agriculture-related financial services, established the revitalization of rural areas and financial poverty alleviation special assessment scheme and implemented differentiated incentives policy for “Sannong” business. Resources including staff, funds, self-service machines and others were shifted towards the sub-branches providing the financial services in County Area to ensure that the financial services in County Area could become fast and convenient, timely, effective and satisfying.

(III) Innovation-driven

With a focus on the improving inclusive financial services, the Bank accelerated innovative product and service models and increased financial supply for “Sannong”. The Bank actively promoted cooperation models such as bank to government and bank to guarantor, promoted the integration and development of “Three Cooperatives”, accelerated the use of new technologies such as cloud computing, big data, and artificial intelligence, and innovated “online + offline” two-way driving, fast and efficient financial service products to meet the needs of customers in rural areas. The Bank also revised existing measures and operating procedures of “Sannong” credit loan based on new situations, new changes and new characteristics of rural areas, so as to promote the integration of products and markets.

II. Corporate Banking Business in County Area

During the Reporting Period, we centered on the key banking businesses in County Area such as facilitating the integrated development of urban and rural areas and the modernization of agriculture and rural areas, the Bank continued to, with leading enterprises in the Bank as its main target customers, tighten classified management of corporate customers, energetically intensify marketing efforts and strive to foster core customer groups. For flagship companies of relevant industries, the Bank developed integrated banking services plans, improved its banking services, consolidated and deepened the cooperative relations between banks and enterprises.

III. Personal Banking Business in County Area

During the Reporting Period, the Bank devised and implemented special marketing plans in a bid to drive the growth of personal banking business in County Area. Targeting the county’s individual and private business owners, farmer entrepreneurs, the wealthy people and other excellent customers, the Bank vigorously developed personal products for specific areas and promoted loans secured by rural residential housing and contractual management rights of rural lands at a steady pace, actively invested credit funds to promote the development of characteristic agriculture, rural tourism operation and beautiful rural housing construction, etc. in order to satisfy diversified credit needs of individual customers in County Area effectively. In the meantime, the Bank earnestly implemented the national targeted poverty alleviation work requirements, and precisely launched credit support to assist industries, education, employment and electricity suppliers via product, assessment and demonstration innovation, so as to help farmers to cast off poverty.

As the only bank in Chongqing offering the social pension insurance services for urban and rural residents, the Bank carried out social pension insurance agency services for urban and rural residents in all districts/counties throughout the city, with coverage of over 11.20 million people. Departments of finance and social insurance of the city and district/county have opened social insurance accounts with the Bank, with a capital balance of RMB11,750 million as of 31 December 2018. In 2018, the number of individual pensions withheld by the Bank amounted to 5,085.3 thousand, totaling RMB1,302 million; the number of individual pensions paid by the Bank as an agent amounted to 48,892.7 thousand, totaling RMB6,407 million. These services provided the Bank with an extensive customer base and helped stabilize the customer resources and facilitate the development of the Bank's businesses.

The Bank made greater efforts in the construction of electronic channels in County Area and vigorously marketed the Jiangyu Card (江渝卡), the Jiangyu Xiangqing Card (江渝鄉情卡), the Farmer's Fortune Card (福農卡), credit card, personal internet banking and mobile banking. As of 31 December 2018, the Bank operated 2,834 ATMs, 691 multi-media enquiry machines in County Area and established and operated 531 convenient rural financial self-service centres. The number of debit cards and credit cards issued by the Bank in County Area also increased by 1,647.8 thousand and increased by 83.5 thousand over the end of the previous year, respectively, to 15,741.5 thousand and 516.9 thousand, respectively, which accounted for 77.68% of the debit cards issued by the Bank and 76.71% of the credit cards issued by the Bank, respectively. 2,116.5 thousand customers in County Area opened for personal internet banking service, accounting for 70.26% of the number of customers opening for personal internet banking service of the Bank and representing an increase in 187.9 thousand customers over the end of the previous year. 6,591.6 thousand customers in County Area opened for mobile phone banking service, accounting for 79.98% of the number of customers opening for mobile phone banking service of the Bank and representing an increase of 1,139.5 thousand customers over the end of the previous year. With the gradual enhancement in electronic equipment, the increase in the number of cards and the promotion and marketing on E-banking products, the Bank is well poised to keep expanding its customer base in County Area, increase the penetration of banking business in County Area, and build good business relationship with customers.

IV. Summary of Information on Geographical Segments

When information is prepared based on the geographical segments, total operating income is allocated in accordance with the locations of branches recording gains. The table below sets forth the total operating income attributable to County Area branches and sub-branches and urban area branches and sub-branches for the periods indicated:

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December					
	2018			2017		
	County Area	Urban Area	Total	County Area	Urban Area	Total
Net interest income	4,122.2	15,891.7	20,013.9	4,074.3	17,426.4	21,500.7
Net fee and commission income	970.0	1,095.8	2,065.8	1,064.6	1,231.0	2,295.6
Net trading gain	–	3,807.3	3,807.3	–	(36.8)	(36.8)
Other operating (losses)/ income, net	68.6	136.0	204.6	76.3	134.2	210.5
Total operating income	5,160.8	20,930.8	26,091.6	5,215.2	18,754.8	23,970.0
Internal transfer of income and expense	7,212.0	(7,212.0)	–	6,191.7	(6,191.7)	–
Gain after adjustment	12,372.8	13,718.8	26,091.6	11,406.9	12,563.1	23,970.0

For the year ended 31 December 2018, the gain of County Area segment after adjustment was RMB12,373 million, which was mainly attributable to the increase in net interest income.

RISK MANAGEMENT

In 2018, guided by the New Basel Capital Accord as well as the comprehensive risk management guidelines and relevant regulatory requirements of the CBIRC, the Group continued to improve organization structure and relevant comprehensive risk management policies and systems, published and continuously implemented the written risk appetite statement. During the Reporting Period, the capital adequacy ratio at all levels of the Group has steadily increased with stable asset quality. Provision for asset impairment was sufficient with strong risk offsetting ability. Liquidity maintained sufficient. The Group effectively implemented internal control and risk management that matched the business scale and complexity.

I. Credit Risk Management

Credit risks refer to the risk of economic loss arising from the failure of the borrower of a bank or the counterparty to a transaction to fulfill its corresponding responsibilities in compliance with contractual agreements due to various reasons.

In 2018, confronted with the complicated macro-economic and financial environment, the Group earnestly implemented the macro-economic control policy of the country, and further improved the credit risk management system based on the “Three Transformation” strategy and the philosophy of “strengthening the management, controlling risks and steady development”. The Group also extended the scope of the risk management committee under the senior management to ensure the effective supervision of credit risk by management. The Bank facilitated the reform and innovation in a practical manner, made timely adjustment to the credit policy based on the change in macro environment and adjustment of industry structure, formulated the annual credit granting guidelines, and continued to improve the industry structure. It also strengthened the risk management and control of local debts, real estate sector, industries with high pollution, high energy consumption and excess capacity and other key sectors, and adopted list-based management in respect of customers with high risk and continuously monitored the risk profile. According to the “Measures for the Management of High Risk Exposure of Commercial Banks”, the Bank implemented management of high risk exposure. As of the end of 2018, the Group’s major risk exposure indicators were better than the regulatory requirements. The Bank strengthened the term management of loans and paid close attention to the settlement and disposal of overdue loans. It also increased its efforts in proactive risk inspection, identification and mitigation as well as termination of loan to customers with potential risks. The Bank prudently carried out the management of asset risk classification and made provisions to enhance risk compensation. The Bank strengthened the clearing, disposal and write off of non-performing loans as well as innovated transfer of non-performing loans. It also continued to improve the functions and scope of application of the credit business management system, thereby further enhancing the ability in credit risk management and control.

II. Liquidity Risk Management

Liquidity risk refers to the risk of inability in getting sufficient funds at reasonable costs in a timely manner to meet the due liabilities or other obligations for payments or other capital needs required for the conduction of normal business. The objective of liquidity risk management of the Group is to meet the liquidity needs of asset, liability and off-balance sheet activities and meet its payment obligation to external parties on a timely basis, to maintain stable operation with overall security, to protect the interests of depositors, and to effectively balance fund profitability and overall security no matter during the normal operation or at a highly stressed condition through the development of a scientific and comprehensive liquidity risk management mechanism and the implementation of effective identification, measurement, monitoring and reporting measures on liquidity risk.

The Board of Directors of the Group is ultimately responsible for liquidity risk management. The Asset and Liability Management Commission and Risk Management Commission under senior management is responsible for establishing policies and strategies relating to the Group's overall management of liquidity risk. The Risk Management Department, the Financial Planning Department, the Capital Operation Department, the Asset Management Department and other related departments cooperated with each other to form an organizational structure of liquidity risk management with division of work and cooperation, clear responsibilities and efficient operation.

In 2018, the Group insisted on the business ideology of prudence and compliance, prioritised asset safety and mobility in its operation and adopted a series of measures to improve its asset and liability structure. By timely revising the Liquidity Risk Management Measures in accordance with regulatory requirements and formulating the liquidity risk appetite and limit control plan in 2018, the Group enhanced daytime liquidity risk management, and further optimized liquidity risk management information system to facilitate the refined management.

The Group, leveraging its unremitting efforts in strengthening liquidity monitoring and forecast as well as the application of the FTP, a system for internal fund transfer pricing, had improved the management of internal fund allocation under the system. The Group updated liquidity pressure tests scenarios annually and carried out liquidity pressure tests quarterly to examine the ability of the Group to withstand risks under extreme pressure. The results showed that the management of liquidity risks under pressure, though more difficult, was controllable.

(I) Liquidity Risk Analysis

In 2018, strong supervision and stable monetary policy continued to be promulgated. The Central Bank successively used tools, such as targetedly cutting the reserve requirement ratio for the sake of inclusive finance, medium-term lending facilities, and reverse repurchase operations, in a timely and appropriate manner to provide liquidity. The total liquidity of the banking system was at a reasonable level of adequacy. The Group strictly complied with the liquidity quota management mechanism and maintained a satisfactory liquidity. As at the end of 2018, all the key indicators reflecting the liquidity status of the Group met the supervision requirements.

The Group appraised the liquidity risk conditions by means of liquidity gap analysis. At the end of December 2018, the liquidity gap analysis of the Group is as follows:

Undiscounted contractual cash flows categorised by contractual maturities:

(Expressed in RMB million, unless otherwise stated)	31 December 2018							
	Past due/ Undated	On demand	1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Net position of assets and liabilities	<u>71,954.0</u>	<u>(243,439.6)</u>	<u>(926.5)</u>	<u>(66,389.8)</u>	<u>54,714.0</u>	<u>126,008.6</u>	<u>261,344.1</u>	<u>203,264.8</u>

(Expressed in RMB million, unless otherwise stated)	31 December 2017							
	Past due/ Undated	On demand	1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Net position of assets and liabilities	<u>88,102.2</u>	<u>(236,329.2)</u>	<u>27,649.1</u>	<u>(41,204.0)</u>	<u>2,385.5</u>	<u>173,274.1</u>	<u>145,659.9</u>	<u>159,537.6</u>

Note: Please refer to “Notes to the Consolidated Financial Statements: 49. Financial Risk Management (4) Liquidity Risk”

The Group’s liquidity coverage ratio:

(Expressed in RMB million, unless otherwise stated)	31 December 2018
Qualified and high-quality liquid assets	104,594.62
Net cash outflows in future 30 days	50,367.21
Liquidity coverage (%)	<u>207.66</u>

The Group calculated the liquidity coverage ratio according to the relevant requirements of the “Administrative Measures for Liquidity Risk of Commercial Banks” (《商業銀行流動性風險管理辦法》) issued by the CBIRC (the former CBRC). The Measures stipulated that the liquidity coverage ratio of commercial banks should reach 100% prior to the end of 2018.

The qualified and high-quality liquid assets mean various assets which can be cashed quickly in the financial market through sale or mortgage (pledge) without loss or with minimal loss in the pressure scenarios set by the liquidity coverage ratio.

The net cash outflow in future 30 days means the balance between the expected total cash outflow and the expected total cash inflow in the future 30 days in the pressure scenarios set by the liquidity coverage ratio. The expected total cash outflow is the sum of the products of the balance of the relevant liabilities and off-balance-sheet items and its expected churn rate or extraction rate in the pressure scenarios set by the liquidity coverage ratio. The expected total cash inflow is the sum of the products of the balance of the relevant on and off-balance-sheet contractual receivables and its expected churn rate in the pressure scenarios set by the liquidity coverage ratio. The expected total cash inflow which can be included shall not exceed 75% of the expected total cash outflow.

III. Market Risk Management

Market risk refers to the risk of losses from on-balance-sheet and off-balance-sheet businesses of the Group arising from adverse changes in the market price (such as interest rate, exchange rate, stock price and commodity price, etc.).

The Group manages its interest rate risk and exchange rate risk in accordance with the requirements of the Guidelines of Market Risk Management of Commercial Banks (《商業銀行市場風險管理指引》), the Guidelines of Internal Control of Commercial Banks (《商業銀行內部控制指引》) and the Guidelines for Stress Testing of Commercial Banks (《商業銀行壓力測試指引》) and with reference to the relevant provisions in the “New Basel Capital Accord”. The Group has also formulated a management system for market risk through regulations on authorisation, credit extension and limit of risks, and measures such as monitoring and reporting.

(I) Interest Rate Risk Analysis

Interest rate risk is the major market risk faced by the bank accounts. The Group measures interest rate sensitivity gap on a regular basis, evaluates interest rate risk through gap analysis, and further assesses the impact of interest rate changes on net interest income and corporate net value in varied interest rate scenarios.

In 2018, the economy was in a downward cycle. For the monetary market, counter-cyclical regulation was the main policy, with many targeted cuts to required reserve ratios in the year. Accompanied by a significant improvement in market liquidity, the monetary policy entered into the process of marginal easing and money market rate decreased after hike, showing a staged downward trend. For the bond market, the bond market was affected by the intensive introduction of regulatory policies. Market sentiment was once cautious, and long-term yields rose. As the funds turned to loose, the market gradually understood the marginal changes in monetary policy. The decline of all kinds of risk assets at the end of the year led to bullish sentiment in the bond market, and bond yields fell. In response to the changing market situation, the Group kept a close eye on the changes in macro monetary policy and domestic and foreign financial markets. By applying the FTP internal fund transfer pricing system properly, the Group further improved the management of interest rate pricing, duly adjusted the pricing of funds and effectively controlled the fall of interest rates for loans and interest costs for deposits with a view to improving the proactiveness of risk management and ensuring the sustained growth in the revenue and market value of the Group.

The structure of the Group's interest rate risk gap on the contract re-pricing date or maturity date (whichever was earlier) is as follows:

(Expressed in RMB million)	As at 31 December 2018						Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	
Interest rate gap	<u>30,792.1</u>	<u>(63,109.6)</u>	<u>5,249.6</u>	<u>21,945.4</u>	<u>62,851.9</u>	<u>11,655.2</u>	<u>69,384.6</u>

(Expressed in RMB million)	As at 31 December 2017						Total
	Within 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	
Interest rate gap	<u>77,863.5</u>	<u>(40,748.5)</u>	<u>(45,916.1)</u>	<u>48,437.2</u>	<u>19,271.0</u>	<u>3,799.5</u>	<u>62,706.6</u>

As at the end of December 2018, the Group's accumulated gaps of interest rate for all maturities amounted to RMB69,380 million, representing an increase of RMB6,670 million over the end of the previous year.

The following table illustrates the interest rate sensitivity analysis of the Group on the assumption that the overall interest rate in the market moves in parallel and not considering any risk management actions the management may take to mitigate interest rate risk:

(II) Interest rate sensitivity analysis

RMB million

Change in basis points	The Group As at 31 December 2018		The Group As at 31 December 2017	
	Changes in net profit	Changes in other comprehensive income	Changes in net profit	Changes in other comprehensive income
Increase in 100 basis points	1,522.5	51.5	1,821.2	135.8
Decrease in 100 basis points	<u>(1,522.5)</u>	<u>(51.5)</u>	<u>(1,821.2)</u>	<u>(135.8)</u>

(III) Exchange Rate Risk Analysis

Exchange rate risk primarily results from mismatches in the currency denomination of the Group's assets and liabilities and currency position mismatches caused by currency mismatched between capitals and foreign currency transactions. The Group mainly adopts foreign exchange exposure analysis, sensitivity analysis and other means to measure exchange rate risk. The Group is mainly engaged in the Renminbi business with certain transactions related to US dollars, euros and HK dollars but seldom conducts transactions in other currencies. Transactions in foreign currencies are mainly the Group's business of agency sale and purchase of current and forward foreign exchange and self-operated foreign exchange swaps settlement.

In 2018, the global economy is characterized by slowing down momentum, obvious differentiation, rising downside risks and accelerating adjustment of rules. Under the difference of economic fundamentals and monetary policies between China and the United States, RMB had been depreciating for a long time. The exchange rate between the US dollar and RMB was close to 7. In November 2018, RMB stopped depreciation and appreciated, becoming the first month of RMB appreciation since April 2018. At the end of 2018, due to the suspension of interest rate increase by the Federal Reserve of the United States and other factors, RMB showed a trend of appreciation. In the future, uncertain and unstable factors will increase. It is expected that the global economy will maintain a weak growth trend. China will further promote the marketization of the RMB exchange rate. The Group strengthened its management capability of its exposure to foreign exchange risks and the management standard of foreign exchange assets and liabilities by enhancing the dynamic management of the deposits and loans of foreign exchange and arranging the utilisation of foreign exchange capital reasonably. It also actively explored the usage of financial instruments for exchange rate to hedge against exchange rate risk.

As at the end of December 2018, the position of foreign currencies on the Group's balance sheet denominated in RMB is as follows:

As at 31 December 2018					
(Expressed in RMB million)	RMB	U.S. dollars RMB equivalent	HK dollars RMB equivalent	Other currencies RMB equivalent	Total
Net position	<u>68,394.4</u>	<u>742.6</u>	<u>109.5</u>	<u>138.1</u>	<u>69,384.6</u>

As at 31 December 2017					
(Expressed in RMB million)	RMB	U.S. dollars RMB equivalent	HK dollars RMB equivalent	Other currencies RMB equivalent	Total
Net position	<u>62,119.9</u>	<u>476.3</u>	<u>69.8</u>	<u>40.6</u>	<u>62,706.6</u>

The following table illustrates the exchange rate sensitivity analysis of the Group on the assumption that the RMB exchange rate against USD in the market moves and not considering any risk management actions the management may take to mitigate exchange rate risk:

(IV) Exchange rate sensitivity analysis

RMB million		
Exchange rate change	As at 31 December 2018 Changes in net profit	As at 31 December 2017 Changes in net profit
5% appreciation	(27.8)	(17.9)
5% depreciation	<u>27.8</u>	<u>17.9</u>

Changes in net profit are determined based on the assumption that the Group's net foreign exchange as at the end of the Reporting Period remains unchanged. Based on the judgment of the management over the trend of foreign exchange movements, the Group actively adjusted its foreign exchange position to lower foreign exchange risks. Therefore, there may be discrepancy between the sensitivity analysis above and the actual conditions.

IV. Operational Risk Management

Operational risk refers to the risk of loss resulting from incompleteness or faults in internal procedures, staff and information system, or external events. The operational risk of the Group mainly comprises internal and external risks. Internal risks mainly include risks arising from errors made by the personnel, inappropriate procedures and operation flow and IT system failure. External risks include risks arising from external contingencies.

In 2018, the Group strengthened the internal management in the comprehensive risk management system according to the regulatory requirements, established various important measures to control operational risk and continuously enhanced its overall prevention and control over operational risks. Firstly, the Group successively updated and issued the “Operational Risk Management Measures” and “Employee Behavior Management Measures”, to further clarify and refine the specific control measures and standardize and guide the further development of operational risk management in the Bank. Secondly, the Group strengthened daily risk management by strengthening the analysis and identification of risk exposure in the process of business management activities through carrying out the “year of operational risk management”, annual risk case examination and other activities to strengthen the long-term mechanism of rectification. The Group also organized and carried out various special inspection on accounting business and counter operation, continuously monitored the practices and took measures to mitigate and control the risks. Thirdly, the Group implemented the regulatory requirements, comprehensively carried out the work of rectifying the chaos in the banking industry market, and carried out self-examination, cross-checking and special supervision at all levels of institutions in light of the rectification requirements of the regulatory authorities, effectively prevented and control cross-financial risks, and ensured compliance with laws and regulations. The bottom line of risks was kept. Fourthly, the business continuity management was implemented in a stable manner. We formulated the drill plan for business continuity of the Bank for the year, formulated the emergency plan for the launch of emergency drills by business and technology departments as scheduled, reviewed and recorded the business emergency plans submitted by different departments, and comprehensively improved the business continuity management system. Fifthly, the Group facilitated the risk management of information technology. The Group continued to enhance the ability to ensure the safe operation of important information systems, strengthened data security management and virus and external intrusion prevention capabilities. The three lines of defence carried out a number of risk inspection, assessment and audit activities to identify and rectify defects. The Group used the information technology risk monitoring indicator system to collect indicator data on a quarterly basis and analyze and report the risk trends. Sixthly, the Group organized all departments to implement regular monitoring and management of operation risks, designed and determined the key risk monitoring indicators for different business management activities, and gradually implemented the operation risk monitoring and analysis mechanism within the Bank. Seventhly, the Group improved the systematic assessment mechanism, fully reviewed the compliance, applicability and operability of the system, carried out internal control system assessment, thereby directing and facilitating the overall enhancement of the quality of the Bank’s internal control system. The Group published and applied a number of standardized contracts to effectively prevent and control legal compliance risks.

V. Implementation of New Basel Accord

The Group further promoted the establishment of new capital accord in accordance with the requirements of the regulatory authorities. In 2018, the Group mainly completed the annual update on the internal rating of non-retailing sector, and the internal rating and automatic credit system of retailing sector was officially launched as well as the update on certain scorecard and pool model, promoting the wide use of the retailing scorecard model for online innovative products and offline traditional business. The Group continuously carried out rating system monitoring, prepared retailing and non-retailing rating analysis reports on a quarterly basis, and comprehensively analyzed the overall rating status from the perspectives of rating distribution, default analysis, quota analysis and model verification monitoring to ensure that the internal rating system was functioning properly. The Group continuously optimized the risk model and developed and updated the model that met the monitoring threshold and the data accumulation requirements to ensure the availability of the model. It launched various systems such as rating system management, internal rating model and risk parameter quantitative management to promote the standardized and efficient use of the results of the construction of new capital agreements. The Group promoted construction of risk data collection, completed the development of the main functions, basically built a data collection source that covered the main risk data and unified theme models of the Group, laying a solid foundation for achieving unified and accurate analysis and utilization of risk data to implement comprehensive risk management. The Group facilitated the construction of risk-weighted assets (RWA) system. The system has entered the trial operation stage, realizing the automatic calculation of risk-weighted assets of the Bank, and providing the function of capital planning and RWA planning and management, thereby providing an effective tool for enhancing the capital management ability of the Bank. The internal evaluation risk parameters were used to realize the impairment measurement under the new IFRS 9 standard, which effectively improved the level of risk management with steady promotion of complementary system construction.

VI. Anti-money Laundering

In 2018, the Bank's anti-money laundering work earnestly implemented the "Opinions of the General Office of the State Council on Improving the Supervision System and Mechanism of Anti-money Laundering, Anti-terrorist Financing and Anti-tax Evasion". Based on the implementation of the "Order No. 3" issued by the Central Bank, the Bank constantly optimized the working mechanism, improved the internal control system, started the data management of anti-money laundering, and further enhanced the effectiveness of anti-money laundering work. During the Reporting Period, the Group revised and improved the "Measures for Customer Identity Identification and Preservation and Management of Customer Identity Data and Transaction Records"; incorporated anti-money laundering management into the main business line of the principal bank and branch Key Performance Indicator for assessment to improve the assessment mechanism and performance abilities; sped up the construction of the anti-money laundering monitoring center, conducted centralized screening, analysis and reporting of suspicious cases at 43 branches and sub-branches of the Bank, comprehensively enhanced the intensive and professional management level of anti-money laundering work; commenced the anti-money laundering data management work in an all-round way, starting with the improvement of customer information, transaction information and the quality improvement of large amount transactions and suspicious transactions, and effectively rectified the problem data; fully facilitated the implementation of "Order No. 3", "No. 235" and "No. 300" Articles of the Central Bank, optimized the core system, standardized the data interface, strengthened the identification of customers, and earnestly performed anti-money laundering legal obligation. In 2018, the Bank convened 5 joint task meetings on anti-money laundering work, issued 13 working contact lists to the business department, submitted 123 reports of major suspicious transactions, rejected 19 account opening applications, conducted subsequent control of 145 accounts, issued 7 Risk Notices, issued 12 anti-money laundering working status reports, delivered 58,195 anti-money laundering promotion leaflets, offered 6 anti-money laundering training sessions to new staff, branches, sub-branches and village and township banks, which effectively enhanced the Bank's anti-money laundering efficiency and accelerated the construction of anti-money laundering compliance culture.

INTERNAL AUDIT

The Group has established a sound internal audit system according to the Articles of Association. The Board of Directors is responsible for establishing, improving and maintaining a sound and effective internal audit system, ensuring that internal audit has sufficient independence. Chief Auditor is accountable to the Board of Directors, and reports the audit work to the Board of Directors, Board of Supervisors and senior management. The headquarter, branches and sub-branches of the Bank have set up their respective internal audit departments. The internal audit departments of branches and sub-branches are operated under a "dual leadership" and "two-way report" system. CQRC Financial Leasing Co., Ltd. and the Bank's controlled village and township banks have set up their respective internal audit departments or assigned designated staff responsible for internal audit subject to the guidance and management of the internal audit department of the headquarter.

During the Reporting Period, the internal audit department carried out in-depth implementation of the “Three Transformation” strategy, adhered to the goal of service organization, highlighted the risk-oriented, issue focused and value-added approaches, and effectively fulfilled its audit responsibilities by strengthening risk concepts and rationally allocating resources. The department actively cooperated with the CBIRC’s special inspection of key business and the Chongqing Audit Bureau’s specific audit, and carried out the remediation of market chaos activities in accordance with regulatory requirements. Based on its risk-oriented, problem-oriented and service-oriented approaches, the department conducted case risk investigation, business target audit, economic responsibility audit, internal control assessment regarding criminal risks, credit risk and emerging business risk, and conducted specific audit investigation on wealth management business, collateral management, anti-money laundering management, and three lines of defence. Greater efforts were devoted to the consolidated supervision and regulation. The department carried out internal control assessments, operation objective audit and investigation into criminal risks to the Bank’s controlled village and township banks and CQRC Financial Leasing Co., Ltd. The department adhered to standardization operations and strengthened review on quality; increased the rectification and supervision of problems and strengthened the use of audit results to enhance quality and efficiency of audit; accelerated audit informatization and improved audit innovation capabilities; strengthened audit innovation and enhanced the level of audit informatization; strengthened the construction of audit teams to improve professional competence; so as to continuously improve the value of internal audit and to provide a strong guarantee for the stable operation of the Bank.

FINANCIAL CONSUMER RIGHTS PROTECTION

In 2018, the Bank strictly abided by the regulatory rules, adhered to the Company’s development strategy, and continuously improved the level of financial consumer rights protection by improving the mechanism and system construction, improving the system and implementing various measures for the financial consumer rights protection.

To improve the working mechanism of consumer rights protection, the Board of Directors set up the Consumer Rights Protection Committee and formulated the “Working Rules of the Consumer Rights Protection Committee”. At the senior management level, a leading group was set up to hold regular meetings to organize, deploy and coordinate the development of consumer protection in the Bank. Under the Compliance and Consumer Rights Management Department, the secondary department, “Consumer Rights Protection Office”, and specific posts were established to be dedicated to the implementation of consumer rights protection work, and to clarify the focus of consumer rights protection work. In order to implement the “Working Rules of Consumer Rights Protection Committee”, the Bank strengthened and innovated in the aspects of mechanism and system construction, consumer rights protection assessment, double-recording and one-zone management, product information disclosure, customer complaint management, publicity and education throughout the year.

We optimized the system of consumer rights protection and consolidated the foundation of work management. The Bank constantly established and improved the basic institutional framework of consumer rights protection that matched the Bank’s organizational structure, business scale and development strategy, established the institutional system of “programmatic document + specific management system + several product management measures”, formulated and revised ten regulations including the “Measures for Consumer Rights Protection Management”, “Measures for Information Disclosure of Service Price” and “Audit Management Measures for Protection of Consumers Rights and Interests” and “Measures for Protection and Management of Personal Financial Information”, providing institutional guarantee for the effective development of consumer rights protection.



Management Discussion and Analysis

We strengthened product risk control and improved customer service level. In terms of products, the product R&D department evaluated the policies, business rules and pricing that affect consumers, and provided the specific consumer rights protection review opinions to the consumer rights department. When introducing and selling products and services, we must expose risks, actively implement the requirements of “double recording and one-zone” supervision, set up “product information inquiry platform” on the official website, print “Consumer Rights Protection Notice”, fully disclose product information, and safeguard financial consumers’ right to know. In terms of services, we continued to put in convenient service terminals and mobile service vehicles, and improved the construction and renovation of the barrier-free facilities such as business premises, self-service equipment and service hotlines. We intensify the pilot deployment of self-service devices such as cash circulation terminals and intelligent counters to better meet the daily financial service needs of financial consumers.

We delivered financial knowledge and passed on the common concept of consumer protection. Through the development of specific training on consumer rights protection, the production of “Financial Consumer Rights Protection Handbook”, the organization and development of specific publicity and education activities such as “Financial Knowledge Walkathon”, “Financial Knowledge into Campus”, “Financial Knowledge into Households”, “Spring Festival Transport Public Welfare”, the staff’s working skills in consumer rights protection were constantly improved with enhanced awareness of consumer rights protection. Over 5,000 outreach publicity events were conducted throughout the year, involving more than 30,000 employees and more than 800,000 audiences, and more than 900,000 publicity materials were distributed.

We strengthened customer complaint management and improved complaint handling mechanism. We formulated the “Complaint Analysis Implementation Rules” and regularly summarized and evaluated the causes and measures of complaint incidents. We improved and optimized product quality, business process and internal management according to the targeted evaluation. At the same time, by actively implementing the classification standard of complaints, we standardized the process of handling complaints and classification of complaints, improved the level of handling complaints and enhanced customer experience satisfaction.

We promoted the scientific and technological management level of consumer rights protection, and consolidated the foundation of consumer protection work. With the help of science and technology, we built a management system to realize the refinement, digitalization and specialization of consumer rights protection management. Through the process specification and data analysis of the daily management and complaint management of consumer rights protection, we extracted the complaint information, supervised, counted and prompted the handling of complaints. We also warn the hotspots and difficulties of the consumer rights protection based on the analysis, established the key points database of the consumer rights protection and the case database of customer complaints, so as to enhance the scientific and technological management level of consumer rights protection.

OUTLOOK

2019 is the 70th anniversary of the founding of New China and the key year for building a well-off society in an all-round way. In accordance with the plan of the Central Economic Work Conference, China will adhere to the general tone of steady and progressive work, take supply-side structural reform as the main line, deepen market-oriented reform, expand high-level opening up, strive to stimulate micro-main vitality, innovate and improve macro-control, comprehensively promote stable growth, promote reform, adjust structure, benefit people's livelihood and prevent risks, and further stabilize employment, finance, foreign trade, foreign investment, investment and expectations, boost market confidence, and maintain economic operation in a reasonable range.

Judging from the local condition, Chongqing's industrial restructuring ideas are clearer, the new and old momentum is speeding up the transformation, the development foundation is constantly consolidated, policies and measures are gradually implemented, and a high-quality development system and mechanism are being formed. In 2019, Chongqing will stringently adhere to the "two points" positioning, the "two places" and "two highs" goals and the "four strengthening" requirements to constantly respond to "Three Critical Battles", steadily implement the "Eight Action Plans", accelerate the high-quality development of the city's economy, and strive to achieve the overall goal of 6% GDP growth of the region.

In 2019, under the guidance of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, the Bank will thoroughly implement the spirit of the Nineteenth National Congress of the CPC, the decision-making arrangements of the Municipal Committee and the Municipal Government of Chongqing, further implement the "Three Transformation" strategy in strict accordance with the requirements of supervision at all levels, adhere to the working ideas of "strengthening the management, controlling risks and steady development", constantly improve the quality and effectiveness of internal management, effectively prevent financial risks, comprehensively promote high-quality development to ensure the accomplishment of the annual goals and tasks.



Corporate Social Responsibility

In 2018, facing the complicated domestic and international economic situation and the tortuous and changeable market environment, the Bank continued to focus on the work ideas of “Strong Management, Risk Control, and Steady Development”, promoted the implementation of the “Three Transformation” strategy of “Operating with Characteristics, Management Refinement, Cultivating a Good Corporate Culture”, and adhered to its mission of “Excellent Services to Customers, Maximum Returns to Shareholders, Real Success for Our People, Great Contribution to Community”, enhanced corporate governance, strengthened comprehensive risk management and control, vigorously promoted financial innovation, and firmly completed the work of this year.

Promoting Economic Development to Help Enrich the People and Revitalize Chongqing. In the context of the national strategy and in line with Chongqing’s industrial policies, the Bank increased strategic investment in the construction of “One Belt and One Road” and inland open highland, introduced high-quality foreign investment to support the development of new industries such as new energy vehicles and communications, vigorously supported the private economy, and optimized the allocation of financial resources; actively served the real economy and optimized the credit structure; steadily promoted the “Sannong” business and improved basic financial coverage; built a comprehensive network of small and micro financial services, enhanced foreign cooperation and strengthened business supervision; actively set up a debt committee, strengthened debt risk control, did a good job in anti-corruption, anti-money laundering, anti-counterfeiting work, to provide customers with convenient, standardized, integrated and personalized high-quality financial services.

Taking Environmental Responsibilities and Promoting Green Development. In answer to the national call of green transformation of economy, the Bank formulated green credit development guidelines, guided the allocation of resources, formed green credit incentives, and gave green industry support from industry access. At the same time, the Bank promoted green operation, formulated energy-saving and emission-reduction systems and measures, created an eco-friendly office environment, cultivated employees’ awareness of environmental protection, carried out propaganda for the construction of ecological civilization, actively engaged in green environmental protection public welfare activities, and promoted the harmonious development of economy and environment.

Fulfilling Social Responsibilities to Realize Harmony and a Win-Win Situation. Adhering to the concept of “rooting in the place and serving the public”, the Bank has always been concerned about the life of the community residents, the needs of the residents, listening to the voices of the public, closely linking its own development with the local people’s livelihood, actively helping the poor, caring for the vulnerable groups, organizing and developing various charities, continuously popularizing financial knowledge and promoting harmonious social development. The Bank strengthened the cultivation of good corporate culture protected the rights and interests of employees, paid attention to personnel training, adopted the rational mechanism of active introduction, efficient training and scientific promotion, and established a harmonious and cohesive staff team; adhered to honest management, strengthened community exchanges, and was enthusiastic about social welfare to help build a harmonious society.

Proactively Taking Economic Responsibilities, Environmental Responsibilities and Social Responsibilities, Organically Integrating between Own Development and Social Development, and Being a Responsible and Reliable Commercial Bank to Contribute more to the Regional Economic Development. In 2019, we will earnestly learn and implement the spirit of the Nineteenth National Congress, continue to implement core values of the enterprises of “integrity, collaboration, innovation, development”. We will never forget our original intention, remember our mission, consolidate our foundation, strengthen management, open up new ideas, seize opportunities steadily, and promote harmonious economic, environmental and social development.

Changes in Share Capital and Particulars of Shareholders

MOVEMENT IN SHARES

Unit: share, %

	31 December 2017		Increase/(Decrease) +/- during the Reporting Period					31 December 2018	
	Number of shares	Percentage	Private placement	Issuance of additional shares	Bonus issue	Shares converted from capital reserve	Others	Sub-total	Number of shares Percentage
(I) Shares not subject to trading restrictions									
1. Non-overseas listed shares held									
by legal persons ⁽¹⁾	5,925,048,559	59.25					(1,000,000)	5,924,048,559	59.24
Including: ① Shares held by state-owned legal person shareholders ⁽²⁾	2,811,862,459	28.12						2,811,862,459	28.12
② Shares held by private legal person shareholders ⁽³⁾	3,113,186,100	31.13					(1,000,000)	3,112,186,100	31.12
2. Non-overseas listed shares held by natural persons	1,561,615,400	15.62					1,000,000	1,562,615,400	15.63
Including: ① Shares held by employee natural persons	152,373,510	1.52					95,000	152,468,510	1.52
② Shares held by natural persons other than employees	1,408,161,775	14.08					908,710	1,409,070,485	14.09
③ Shares held by shareholders without affirmed ownership ⁽⁴⁾	1,080,115	0.01					(3,710)	1,076,405	0.01
3. Overseas listed foreign shares	2,513,336,041	25.13						2,513,336,041	25.13
II. Total number of shares	10,000,000,000	100.00						10,000,000,000	100.00

Notes:

- (1) As at the end of the Reporting Period, the Bank has 79,900 holders of non-overseas listed shares and 1,316 registered shareholders of H shares.
- (2) Shareholding of state-owned legal person refers to non-overseas listed shares of the Bank held by 14 state-owned legal person shareholders including Chongqing Yufu Assets Management Group Company Limited (重慶渝富資產經營管理集團有限公司), Chongqing City Construction Investment (Group) Company Limited (重慶市城市建設投資(集團)有限公司) and Chongqing Transport and Travel Investment Group Company Limited (重慶交通旅遊投資集團有限公司).

Changes in Share Capital and Particulars of Shareholders

- (3) During the Reporting Period, Deng Lingran, a natural person, was granted 1,000,000 non-overseas listed shares held by legal person shareholder of the Bank, Chongqing Dingchang Industrial Co., Ltd. (重慶鼎昌實業有限公司), which was originally private owned. The number of legal person shareholders of the Bank decreased to 168.
- (4) Shareholders without affirmed ownership refer to untraceable shareholders of the Bank. Share interests held by them are shares of the former rural credit cooperatives, and they have not affirmed their ownership in the shares of the Bank. (Note: During the Reporting Period, 3,710 shares held at the time of the former rural credit cooperatives have their ownership affirmed in the shares of the Bank, whereby leaving 1,076,405 shares held by shareholders without affirmed ownership).

PARTICULARS OF ISSUE, PURCHASE, SALE AND REPURCHASE OF SECURITIES

Neither the Bank nor its subsidiaries had issued, purchased, sold or repurchased any securities of the Bank during the Reporting Period.

ISSUED BONDS

The Bank issued financial bonds of RMB3 billion on 8 May 2018 in the PRC inter-bank bond market to supplement working capital to enhance operational strength and support the continued steady development of the business; and issued small and micro enterprise loan specific financial bonds of RMB3 billion on 14 December 2018 in the PRC inter-bank bond market to issue small micro-enterprise loans to support small and micro enterprise financial services. Please refer to Note 34 “Issued Bonds” of financial report for the details of issuance of bonds of the Bank.

During the Reporting Period, there had not been any default by the Bank in respect of repayment of the principal and interests of the RMB5 billion callable tier 2 capital bonds issued on 19 June 2014 in the PRC inter-bank bond market or any matters in connection therewith; there had not been any default by the Bank in respect of repayment of the principal and interests of the RMB4 billion callable tier 2 capital bonds issued on 7 December 2016 in the PRC inter-bank bond market or any matters in connection therewith; there had not been any default by the Bank in respect of repayment of the principal and interests of the RMB3 billion financial bonds issued on 8 May 2018 in the PRC inter-bank bond market or any matters in connection therewith; there had not been any default by the Bank in respect of repayment of the principal and interests of the RMB3 billion small and micro enterprise loan specific financial bonds issued on 14 December 2018 in the PRC inter-bank bond market or any matters in connection therewith.

PARTICULARS OF SHAREHOLDINGS

At the end of the Reporting Period, the Bank had a total of 10,000,000,000 shares, comprising 7,486,663,959 non-overseas listed shares and 2,513,336,041 overseas listed H shares.

PARTICULARS OF SHAREHOLDINGS OF THE TOP TEN SHAREHOLDERS OF THE BANK

Unit: Share, %

No.	Name of Shareholder	Nature of shareholder	Total number of shares held	Shareholding percentage ⁽¹⁾	Numbers of shares pledged ⁽²⁾	Type of share
01	Hong Kong Securities Clearing Company Nominees Limited ⁽³⁾	Overseas legal person	2,513,336,041	25.13	Unknown	H shares
02	Chongqing Yufu Assets Management Group Company Limited (重慶渝富資產經營管理集團有限公司)	State-owned legal person	998,000,000	9.98	–	Non-overseas listed shares
03	Chongqing City Construction Investment (Group) Company Limited (重慶市城市建設投資(集團)有限公司) ⁽⁴⁾	State-owned legal person	787,087,430	7.87	–	Non-overseas listed shares
04	Chongqing Transport and Travel Investment Group Company Limited (重慶交通旅遊投資集團有限公司)	State-owned legal person	589,084,181	5.89	–	Non-overseas listed shares
05	Loncin Holding Co., Ltd. (隆鑫控股有限公司)	Domestic non-state-owned legal person	570,000,000	5.70	470,000,000	Non-overseas listed shares
06	CHONGQING CASIN GROUP CO., LTD. (重慶財信企業集團有限公司) ⁽⁵⁾	Domestic non-state-owned legal person	443,100,000	4.43	221,500,000	Non-overseas listed shares
07	Beijing Jiuding Real Estate Co., Ltd. (北京九鼎房地產開發有限責任公司)	Domestic non-state-owned legal person	300,000,000	3.00	149,900,000	Non-overseas listed shares
08	Xiamen Gaoxinhong Equity Investment Co., Ltd. (廈門市高鑫泓股權投資有限公司)	Domestic non-state-owned legal person	200,000,000	2.00	–	Non-overseas listed shares
09	Chongqing Yerui Property Development Co., Ltd. (重慶業瑞房地產開發有限公司)	Domestic non-state-owned legal person	150,000,000	1.50	74,900,000	Non-overseas listed shares
10	Jiangsu Huaxi Group Co., Ltd. (江蘇華西集團有限公司)	Domestic non-state-owned legal person	150,000,000	1.50	120,000,000	Non-overseas listed shares

Changes in Share Capital and Particulars of Shareholders

Notes:

- (1) As at 31 December 2018, the aforesaid shareholding percentage of non-overseas listed shares is based on the total share capital of the Bank of 10,000,000,000 shares.
- (2) As of 31 December 2018, 93,500 thousand shares of the non-overseas listed shares of the Bank are involved in judicial freezing, representing 0.935% of the total share capital of the Bank.

As of 31 December 2018, the pledged non-overseas listed shares of the Bank reaching or exceeding 50% of the Bank's shareholdings amounted to 900,567,700, accounting for 9.01% of the Bank's total share capital. The above shareholders and their dispatched directors will follow the relevant provisions of the Articles of Association, limiting its voting rights in the general meetings of shareholders and the voting rights of the dispatched directors in the Board meetings.

- (3) The number of shares held by Hong Kong Securities Clearing Company Nominees Limited refers to the total number of shares in the H Shareholders' account of the Company in the trading system represented by Hong Kong Securities Clearing Company Nominees Limited.
- (4) Chongqing Yukaifa Co., Ltd. (重慶渝開發股份有限公司), a related party of Chongqing City Construction Investment (Group) Company Limited (重慶市城市建設投資(集團)有限公司), holds 30,000,000 non-overseas listed shares of the Bank, and together hold 817,087,430 non-overseas listed shares of the Bank, accounting for 8.17% of the total.
- (5) Chongqing Casin Real Estate Development Co., Ltd. (重慶財信房地產開發股份有限公司), a related party of Chongqing Casin Group Co., Ltd. (重慶財信企業集團有限公司), holds 110,700 non-overseas listed shares of the Bank, and together hold 443,210,700 non-overseas listed shares of the Bank, accounting for 4.43% of the total.

SUBSTANTIAL INTERESTS AND SHORT POSITIONS

As at the end of the Reporting Period, to the knowledge of the Bank, the interests and short positions of substantial shareholders other than directors and supervisors (within the meaning of the Securities and Futures Ordinance) in the shares and underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance of Hong Kong were as follows:

Changes in Share Capital and Particulars of Shareholders

Domestic Shares

Unit: share, %

Name of shareholder	Capacity	Number of domestic shares held (long position)	% of the total issued domestic share capital of the Bank	% of the total share capital of the Bank
Chongqing Yufu Assets Management Group Company Limited (重慶渝富資產經營管理集團有限公司)	Beneficial Owner	998,000,000	13.33	9.98
Chongqing City Construction Investment (Group) Company Limited (重慶市城市建設投資(集團)有限公司)	Beneficial Owner	787,087,430	10.51	7.87
Chongqing Transport and Travel Investment Group Company Limited (重慶交通旅遊投資集團有限公司)	Beneficial Owner	589,084,181	7.87	5.89
Loncin Holding Co., Ltd. (隆鑫控股有限公司)	Beneficial Owner	570,000,000	7.61	5.70
Chongqing Casin Group Co., Ltd. (重慶財信企業集團有限公司)	Beneficial Owner	443,100,000	5.92	4.43
Beijing Jiuding Real Estate Co., Ltd. (北京九鼎房地產開發有限責任公司)	Beneficial Owner	300,000,000	4.01	3.00
Xiamen Gaoxinhong Equity Investment Co., Ltd. (廈門市高鑫泓股權投資有限公司)	Beneficial Owner	200,000,000	2.67	2.00
Chongqing Yerui Property Development Co., Ltd. (重慶業瑞房地產開發有限公司)	Beneficial Owner	150,000,000	2.00	1.50

Changes in Share Capital and Particulars of Shareholders

H Shares

Unit: share, %

Name of shareholder	Capacity	Number of H shares held ⁽³⁾	% of the total issued H share capital of the Bank	% of the total share capital of the Bank
BlackRock, Inc. ⁽¹⁾	Interest of Controlled Corporations	347,893,976 (L) 5,182,000 (S)	13.84% 0.21%	3.48% 0.05%
BlackRock Global Funds	Beneficial Owner	175,440,000 (L)	6.98%	1.75%
Citigroup Inc.	Interest of Controlled Corporations/ Approved Lending Agent	161,598,297 (L)	6.43%	1.62%
	Interest of Controlled Corporations	7,721,479 (S)	0.31%	0.08%
	Approved Lending Agent	153,112,570 (P)	6.09%	1.53%
Guo Guangchang ⁽²⁾	Interest of Controlled Corporations	176,048,000 (L)	7.00%	1.76%
Fosun International Holdings Ltd. ⁽²⁾	Interest of Controlled Corporations	176,048,000 (L)	7.00%	1.76%
Fosun Holdings Limited ⁽²⁾	Interest of Controlled Corporations	176,048,000 (L)	7.00%	1.76%
Fosun International Limited ⁽²⁾	Interest of Controlled Corporations	176,048,000 (L)	7.00%	1.76%
LSV ASSET MANAGEMENT	Investment Manager	150,238,000 (L)	5.98%	1.50%

Notes:

- (1) BlackRock, Inc. holds the entire issued share capital of BlackRock Holdco 2, Inc. and BlackRock Holdco 2, Inc. holds the entire issued share capital of BlackRock Financial Management, Inc. In accordance with the Securities and Futures Ordinance of Hong Kong, BlackRock, Inc. and BlackRock Holdco 2, Inc. are deemed to have interests in the Bank held by BlackRock Financial Management, Inc. and its controlled subsidiaries. BlackRock, Inc. had a long position in 347,893,976 H shares and a short position in 5,182,000 H shares of the Company through BlackRock Financial Management, Inc. and other corporations controlled by it, among which, the short position in 358,000 H shares involved derivatives.

(2) Guo Guangchang holds 64.45% equity interests in Fosun International Holdings Ltd. Fosun International Holdings Ltd. holds 100% equity interests in Fosun Holdings Limited. Fosun Holdings Limited holds 71.70% equity interests in Fosun International Limited. Therefore, Guo Guangchang, Fosun International Holdings Ltd. and Fosun Holdings Limited are deemed to have interests in the shares of the Bank held by Fosun International Limited and corporations controlled by it. Guo Guangchang had a long position in 176,048,000 H shares of the Bank through Fosun International Limited and other corporations controlled by it.

(3) (L) – Long position, (S) – Short position, (P) – Lending pool.

MAJOR SHAREHOLDERS OF THE BANK

As at the end of the Reporting Period, Chongqing Yufu Assets Management Group Company Limited (重慶渝富資產經營管理集團有限公司), Chongqing City Construction Investment (Group) Company Limited (重慶市城市建設投資(集團)有限公司), Chongqing Transport and Travel Investment Group Company Limited (重慶交通旅遊投資集團有限公司) and Loncin Holding Co., Ltd. (隆鑫控股有限公司) held 998,000,000 shares, 787,087,430 shares, 589,084,181 shares and 570,000,000 shares of the Bank, respectively, representing 9.98%, 7.87%, 5.89% and 5.70% of total share capital of the Bank respectively, and are major shareholders of the Bank.

Except for the aforesaid shareholders, there were no other legal person shareholders holding 5% or more of total share capital of the Bank, nor were there any other employees or natural persons other than employees holding 5% or more of shares of the Bank.

Chongqing Casin Group Co., Ltd. (重慶財信企業集團有限公司), Beijing Jiuding Real Estate Co., Ltd. (北京九鼎房地產開發有限責任公司), Xiamen Gaoxinhong Equity Investment Co., Ltd. (廈門市高鑫泓股權投資有限公司) and Chongqing Yerui Property Development Co., Ltd. (重慶業瑞房地產開發有限公司) may appoint directors and supervisors of the Bank, and held 443,100,000 shares, 300,000,000 shares, 200,000,000 shares and 150,000,000 shares of the Bank, respectively, representing 4.43%, 3.0%, 2.0% and 1.5% of total share capital of the Bank respectively, and are also major shareholders of the Bank.

Chongqing Yufu Assets Management Group Company Limited (重慶渝富資產經營管理集團有限公司) (formerly known as “Chongqing Yufu Assets Management Company Limited” (重慶渝富資產經營管理有限公司)), which was established on 27 February 2004, is a solely state-owned comprehensive assets operation and management company organised under the approval of Chongqing Municipal Government. It was under supervision of Chongqing State-owned Assets Supervision and Administration Commission as a municipal state-owned key enterprise. Under the approval of the Administration for Industry and Commerce of Chongqing, it was renamed as its current name on 28 June 2011. It currently has a registered capital of RMB10 billion.

Changes in Share Capital and Particulars of Shareholders

Chongqing City Construction Investment (Group) Company Limited (重慶市城市建設投資(集團)有限公司) (formerly known as Chongqing City Construction Investment Company (重慶市城市建設投資公司)) is a solely state-owned enterprise established under the approval of Chongqing Municipal Government on 26 February 1993 and authorised to raise and manage capital for city construction. Under the approval of the Administration for Industry and Commerce of Chongqing, it was renamed as its current name on 7 January 2011, with a current registered capital of RMB20 billion.

Chongqing Transport and Travel Investment Group Company Limited (重慶交通旅遊投資集團有限公司) (formerly known as “Chongqing High-grade Highway Construction and Investment Co., Ltd.” (重慶高等級公路建設投資有限公司)), which was established on 6 December 2002, is a large solely state-owned enterprise established with the fund from Chongqing Municipal Government. Under the approval of the Administration for Industry and Commerce of Chongqing, it was renamed as its current name in September 2006, and is engaged in the construction of secondary roads in Chongqing and the development and management of tourism resources in Chongqing. It currently has a registered capital of RMB2,462,917,353.

Loncin Holding Co., Ltd. (隆鑫控股有限公司) is a key private enterprise in Chongqing city. It was established on 22 January 2003 and currently has a registered capital of RMB1 billion. It has been listed among “Top 500 Chinese Enterprises”.

Chongqing Casin Group Co., Ltd. (重慶財信企業集團有限公司) was established in 1997 and currently has a registered capital of RMB1,116 million. It is a platform group company for investment in various relative industries. Its major investment sectors include investment and operation of infrastructure construction, environmental protection, real estate, finance, assets management, culture and tourism industry. It won a series of awards including “Top 100 Creditworthy Enterprises in China”, “Enterprise with AAA Corporate Credit Rating”, “Best Employer in China” and “Outstanding Private Enterprise in Chongqing”.

Beijing Jiuding Real Estate Co., Ltd. (北京九鼎房地產開發有限責任公司) was established in April 1997 with an existing registered capital of RMB100 million. It is engaged in property development and sale of commodity housing; sale of general merchandise, knitwear, metal hardware, chemical product, arts and crafts (except fireworks), medical device, machine, electrical equipment, electronic component, construction material; residential leasing; interior decoration; public parking service for motor vehicles; real estate consultation; technology consultation, technical service, etc.

Xiamen Gaoxinhong Equity Investment Co., Ltd. (廈門市高鑫泓股權投資有限公司) (formerly known as “Xiamen Laierfu Trading Co., Ltd.” (廈門來爾富貿易有限責任公司)) was established in May 2001 with an existing registered capital of RMB100 million, and is engaged in non-security equity investment and advising on equity investment.

Changes in Share Capital and Particulars of Shareholders

Chongqing Yerui Property Development Co., Ltd. (重慶業瑞房地產開發有限公司) was established in December 2003, and currently has a registered capital of RMB100 million. The company received the titles of “Reliable and Credible Enterprise in Chongqing” and “Property Developer with AAA Credit Rating in Chongqing”.

Name of shareholder	Controlling shareholder	Actual controller	Parties acting in concert	Ultimate beneficiary
Chongqing Yufu Assets Management Group Company Limited (重慶渝富資產經營管理集團有限公司)	Chongqing Yufu Holding Group Co., Ltd. (重慶渝富控股集團有限公司)	Chongqing State-owned Assets Supervision and Administration Commission	Nil	Chongqing Yufu Assets Management Group Company Limited (重慶渝富資產經營管理集團有限公司)
Chongqing City Construction Investment (Group) Company Limited (重慶市城市建設投資(集團)有限公司)	Chongqing State-owned Assets Supervision and Administration Commission	Chongqing State-owned Assets Supervision and Administration Commission	Nil	Chongqing City Construction Investment (Group) Company Limited (重慶市城市建設投資(集團)有限公司)
Chongqing Transport and Travel Investment Group Company Limited (重慶交通旅遊投資集團有限公司)	Chongqing State-owned Assets Supervision and Administration Commission	Chongqing State-owned Assets Supervision and Administration Commission	Nil	Chongqing Transport and Travel Investment Group Company Limited (重慶交通旅遊投資集團有限公司)
Loncin Holding Co., Ltd. (隆鑫控股有限公司)	Loncin Group Co., Ltd. (隆鑫集團有限公司)	Tu Jianhua	Nil	Loncin Holding Co., Ltd. (隆鑫控股有限公司)

Changes in Share Capital and Particulars of Shareholders

Name of shareholder	Controlling shareholder	Actual controller	Parties acting in concert	Ultimate beneficiary
Chongqing Casin Group Co., Ltd. (重慶財信企業集團有限公司)	Lu Shengju	Lu Shengju	Nil	Chongqing Casin Group Co., Ltd. (重慶財信企業集團有限公司)
Beijing Jiuding Real Estate Co., Ltd. (北京九鼎房地產開發有限責任公司)	Huaxin Century Investment Group Co., Ltd. (華新世紀投資集團有限公司)	Zhao Yanguang	Nil	Beijing Jiuding Real Estate Co., Ltd. (北京九鼎房地產開發有限責任公司)
Xiamen Gaoxinhong Equity Investment Co., Ltd. (廈門市高鑫泓股權投資有限公司)	Xiamen Sifang Jiasheng Trade Co., Ltd. (廈門四方嘉盛貿易有限公司)	Zhou Zehui	Nil	Xiamen Gaoxinhong Equity Investment Co., Ltd. (廈門市高鑫泓股權投資有限公司)
Chongqing Yerui Property Development Co., Ltd. (重慶業瑞房地產開發有限公司)	Chongqing Huayu Group Co., Ltd. (重慶華宇集團有限公司)	Jiang Yehua	Nil	Chongqing Yerui Property Development Co., Ltd. (重慶業瑞房地產開發有限公司)

Notes:

- (1) As at the end of the Reporting Period, there were no substantial shareholders holding 10% or more of the shares (as defined under the Hong Kong Listing Rules) of the Bank.
- (2) For definitions of controlling shareholders, actual controllers, persons acting in concert and ultimate beneficiary of major shareholders of the Bank, please refer to the relevant requirements under the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》) by the CBIRC (the former CBRC).

DIRECTOR', SUPERVISORS' AND THE CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK

As at the end of the Reporting Period, the interests or short positions of the directors, supervisors and the chief executive of the Bank or their associates in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance of Hong Kong) as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance of Hong Kong or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules were as follows:

Domestic Shares

Unit: share, %

Name	Capacity	Number of domestic shares held (long position)	% of the total issued domestic share capital of the Bank	% of the total share capital of the Bank
Supervisors				
Zuo Ruilan	Beneficial Owner	11,900	0.00016	0.00012
Zhu Yuzhou	Beneficial Owner	37,600	0.00050	0.00038

Other than as disclosed above, none of the directors, supervisors and the chief executive of the Bank or their associates had any interests or short positions in any shares, underlying shares or debentures of the Bank or any of its associated corporations during the Reporting Period.

DIVIDENDS

Upon the approval of the 2017 annual general meeting of the Bank, the Bank distributed final cash dividends for 2017 on 22 June 2018 of RMB0.20 per share (tax inclusive) and RMB2,000 million (tax inclusive) in aggregate to the holders of H shares and the holders of domestic shares whose names appeared on the register of members of the Bank as at 9 May 2018 (after trading hours). Dividends will be distributed in cash.

DIVIDEND POLICY

In accordance with the provisions of the Articles of Association, the profit distribution policy of the Bank is as follows:

The profit distribution of the Bank should pay attention to the reasonable return on investment to investors.

When the Bank distributes the profit after tax for the year, it shall make allowance for the statutory surplus reserve and general reserve in accordance with the requirements of the Company Law and the Ministry of Finance of PRC.

Under PRC law, the Bank shall only pay dividends from its distributable profits.

The Board of Directors is responsible for submitting proposals in respect of profit distribution to the shareholders' general meeting for approval. The determination of whether to pay a dividend and in what amount is based on our business operations, cash flows, financial condition, capital adequacy ratios, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that the Board of Directors deems relevant.

The Bank may distribute dividends in the forms of cash or share. The cash dividend and other amount paid by the Bank to the holders of domestic shares shall be paid in Renminbi. The cash dividend and other amount paid by the Bank to the holders of H shares shall be denominated and declared in Renminbi and paid in HK dollars. The foreign currencies required for the payment of cash dividends and other amount by the Bank to the holders of overseas-listed foreign shares shall be arranged in accordance with the provisions of the People's Republic of China in relation to foreign exchange administration.

Under the PRC Company Law and the Articles of Association, all of our shareholders holding the same class of shares have equal rights to dividends and other distributions proportionate to their shareholding.

The dividend distribution of the Company shall be disclosed in the periodic report in accordance with the relevant provisions.

Any distributable profit that is not distributed in a given year is retained and available for distribution in subsequent years. However, we do not pay any dividends in a year in which we do not have any distributable profit in respect of that year. The payment of any dividend by us must also be approved at a shareholders' general meeting. We are prohibited from making any profit distributions to our shareholders before recovering our accumulated losses and making appropriations to the statutory surplus reserve and the general reserve. If we make any profit distributions in violation of these rules, our shareholders are required to return to us the amounts they received in such profit distributions.

Corporate Governance Report

The Bank continued to improve its transparency, ensuring high standard of corporate governance level practices to safeguard the interests of shareholders and to enhance corporate value.

The Bank has strictly complied with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Hong Kong Listing Rules and also most of the recommended best practices therein. The Bank also strictly complied with the relevant applicable laws and regulations, and the Hong Kong Listing Rules in respect of management of inside information. There is no significant difference between the corporate governance of the Bank and Company Law and the relevant requirement of China Securities Regulatory Commission and Hong Kong Stock Exchange of the PRC.

To the best of the directors’ of the Bank knowledge, there is no reasonable statistic indicating that the Bank is or was in violation of the CG Code during the year ended 31 December 2018.

The Bank will continue to review and enhance its corporate governance to ensure that it will continue to meet the requirements of the CG Code and the rising expectations of shareholders and investors.

GENERAL MEETINGS

Details of the General Meetings

During the year of 2018, the Bank held two general meetings, being the 2017 annual general meeting and the 2018 first extraordinary general meeting of the Bank. Details are as follows:

On 27 April 2018, the Bank held the 2017 annual general meeting. At the 2017 annual general meeting, 14 resolutions mainly regarding 2017 work report of the Board of Directors, the 2017 work report of the Board of Supervisors, the 2017 annual financial final proposal, the 2017 profit distribution plan, the 2018 financial budget, the 2017 annual report and the appointment of the external auditors for 2018 and determination of their remuneration were considered and approved. The annual general meeting was held in compliance with relevant legal procedures. During the Reporting Period, 4 directors of the Bank, namely executive director Mr. Liu Jianzhong, non-executive director Mr. Duan Xiaohua and independent non-executive directors Mr. Cao Guohua and Mr. Song Qinghua, attended the 2017 annual general meeting in person.

On 21 September 2018, the Bank held the 2018 first extraordinary general meeting, at which 23 resolutions mainly regarding the election of Mr. Liu Jianzhong and 12 others as the fourth session of the directors of the Board of the Bank, the election of Mr. Zeng Jianwu and 4 others as the fourth session of the shareholder representative supervisors and external supervisors of the Bank, the amendments to the Articles of Association, the amendments to the Rules of Procedures for the General Meeting, the amendments to the Rules of Procedures for the Board, the amendments to the Rules of Procedures for the Board of Supervisors, the issue of financial bonds were considered and approved. The above extraordinary general meeting was held in compliance with relevant legal procedures. During the Reporting Period, 8 directors of the Bank, namely executive directors Mr. Liu Jianzhong and Mr. Xie Wenhui, non-executive directors Ms. Chen Xiaoyan, Mr. Duan Xiaohua and Mr. Luo Yuxing, independent non-executive directors Mr. Sun Leland Li Hsun, Mr. Yuan Zengting and Mr. Cao Guohua, attended the 2018 first extraordinary general meeting of the Bank in person.

Corporate Governance Report

In 2018, the Bank convened 2 general meetings. The attendance of the directors at the meetings are set out below:

Directors	Attendance required	Actual attendance	Attendance by proxy	Attendance rate
Liu Jianzhong	2	2	0	100%
Xie Wenhui	2	1	0	50%
Zhang Peizong	—	—	—	—
He Zhiming	2	0	0	0
Sun Lida	1	0	0	0
Chen Xiaoyan	2	1	0	50%
Duan Xiaohua	2	2	0	100%
Luo Yuxing	2	1	0	50%
Wen Honghai	2	0	0	0
Sun Leland Li Hsun	2	1	0	50%
Yin Mengbo	2	0	0	0
Yuan Zengting	2	1	0	50%
Cao Guohua	2	2	0	100%
Song Qinghua	2	1	0	50%
Zhang Qiaoyun	—	—	—	—

BOARD OF DIRECTORS AND SPECIAL COMMITTEES

The Board of Directors' Implementation of Resolutions of the General Meeting

In 2018, the Board of Directors strictly implemented the resolutions passed at the general meeting of 2017, earnestly implemented the resolutions regarding 2017 annual profit distribution, financial budget for 2018, appointment of accounting firm for 2018 and the election of the fourth session of the directors of the Board, shareholder representative supervisors of the Board of Supervisors and external supervisors.

Composition of the Board of Directors

As at the end of the Reporting Period, the Board of Directors comprised 13 directors, including 3 executive directors, namely, Mr. Liu Jianzhong (chairman of the Board), Mr. Xie Wenhui (president) and Mr. Zhang Peizong (vice president); 4 non-executive directors, namely, Ms. Chen Xiaoyan, Mr. Duan Xiaohua, Mr. Luo Yuxing and Mr. Wen Honghai; 6 independent non-executive directors, namely, Mr. Sun Leland Li Hsun, Mr. Yin Mengbo, Mr. Yuan Zengting, Mr. Cao Guohua, Mr. Song Qinghua and Mr. Zhang Qiaoyun.

Ms. Chen Xiaoyan, Mr. Duan Xiaohua, Mr. Luo Yuxing and Mr. Wen Honghai, all of whom are directors, were nominated by shareholder units including Chongqing Transport and Travel Investment Group Company Limited (重慶交通旅遊投資集團有限公司), Chongqing Loncin Holding Co., Ltd. (重慶隆鑫控股有限公司), Chongqing Casin Group Co., Ltd (重慶財信企業集團有限公司) and Beijing Jiuding Real Estate Co., Ltd. (北京九鼎房地產開發有限責任公司) respectively.

The appointments of Mr. Zhang Peizong as an executive director and Mr. Zhang Qiaoyun as an independent non-executive director of the Bank were approved by the Banking and Insurance Regulatory Commission Chongqing Bureau on 25 December 2018.

The list of directors (by category) is disclosed in all corporate communications issued by the Bank pursuant to the Hong Kong Listing Rules.

The Board of Directors is responsible for establishing the corporate management system, monitoring the Group's decision-making regarding business activities, financial strategies and business performance, as well as reporting them to shareholders at the general meeting. The Board of Directors has delegated the management with the power and responsibilities to manage the Group. In addition, the Board of Directors has designated the audit committee, nomination committee and remuneration committee to perform their respective responsibilities. Details of the aforesaid committees are further described in this report.

The Board of Directors is also responsible for the performance of the functions of corporate governance. For the year ended 31 December 2018, the Board of Directors performed the functions of corporate governance as set out in code provision D.3.1 in the CG Code.

Operation of the Board of Directors

The Board of Directors convenes meetings on a regular basis, generally not less than 4 times a year, and holds extraordinary meetings when necessary. Board meetings may be convened by means of on-site conference or written resolutions. The agenda for regular board meetings are scheduled upon consultation with directors. Board papers and relevant materials are usually circulated to all directors and supervisors 14 days in advance of the board meetings.

All directors maintain communication with the secretary to the Board of Directors so as to ensure the compliance with board procedures and all applicable rules and regulations.

Detailed minutes of the board meetings are kept, and minutes are circulated to all attending directors for review after the meeting. Directors that have attended the meetings will provide comments for modification after receiving the minutes. The minutes will be circulated to all directors as soon as it is finalised. Minutes of the board meetings are kept according to the requirements of documents management stipulated by the Bank, and are available for inspection by directors at any time.

The Board of Directors has delegated the management of the Bank with the power and responsibilities to conduct daily management and operation of the Group. The respective functions of the Board of Directors and the management of the Bank have been defined and will be reviewed from time to time as appropriate. Communication and reporting mechanism has been established between the Board of Directors, directors and senior management. The president of the Bank reports his work to the Board of Directors on a regular basis, and under its supervision. Relevant senior management are invited to attend board meetings from time to time to give explanations or reply to enquiries.

At Board meetings, directors can put forward their opinions freely, and major decisions are made after detailed discussions. If any director has material interests in a proposal to be reviewed by the Board of Directors, the director concerned must abstain from discussion and voting on the relevant proposal, and is not counted in the quorum of the relevant proposal.

The Board of Directors has set up an office as its acting agency, which is responsible for preparation of the general meetings, board meetings, and meetings of the special committees under the Board of Directors, information disclosure and other daily work.

Board Meetings

According to the Corporate Governance Code ("CG Code"), the Board of Directors should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. A regular meeting does not include obtaining board consent by way of written resolutions.

During the Reporting Period, the Bank convened a total of 23 board meetings including written resolutions. 149 resolutions were considered and passed at such meetings included those regarding 2017 annual report, 2018 interim report and the 2017 work report of the Board of Directors.

The Board of Directors examined and approved 2017 Report on Social Responsibilities of Chongqing Rural Commercial Bank Co., Ltd., and had no objection on the report content. During the Reporting Period, the Bank bore the economic development responsibility, served the real economy, and made the positive contributions in terms of agricultural loans, green credit and community activities, etc.

During the year 2018, the Bank convened 23 board meetings, including 8 on-site conferences and 15 meetings by a written resolution. The attendance of the directors at the board meetings (directors who were involved in connected transactions and required to abstain from voting at the relevant meetings are deemed as present) are set out below:

Directors	Attendance required	Actual attendance	Attendance by proxy	Attendance rate
Liu Jianzhong	23	23	0	100%
Xie Wenhui	23	22	1	100%
Zhang Peizong	—	—	—	—
He Zhiming	18	12	6	100%
Sun Lida	17	15	2	100%
Chen Xiaoyan	23	22	1	100%
Duan Xiaohua	23	23	0	100%
Luo Yuxing	23	23	0	100%
Wen Honghai	23	21	2	100%
Sun Leland Li Hsun	23	21	2	100%
Yin Mengbo	23	21	2	100%
Yuan Zengting	23	23	0	100%
Cao Guohua	23	23	0	100%
Song Qinghua	23	21	2	100%
Zhang Qiaoyun	—	—	—	—

Attendance records of each of the directors at meetings of the Board of Directors and the special committee under the Board of Directors (directors who involved in connected transactions and required to be abstained from the meeting are also deemed as attending directors) in 2018 are set out as follows:

Actual attendance/meetings required to attend during the term of office

The Names of Directors	Board of Directors	Strategic Development Committee	Risk Management Committee	Board Committees Related Party			Audit Committee	Sannong Financial Services Committee	Consumer Rights Protection Committee
				Transaction Supervision Committee	Nomination Committee	Remuneration Committee			
Liu Jianzhong	23/23	8/8	–	–	4/4	–	–	2/2	1/1
Xie Wenhui	22/23	8/8	10/10	–	4/4	3/3	–	2/2	2/2
Zhang Peizong	–	–	–	–	–	–	–	–	–
He Zhiming	18/18	6/6	–	–	–	–	6/6	–	–
Sun Lida	17/17	–	–	14/14	–	–	–	–	–
Chen Xiaoyan	23/23	–	10/10	19/19	–	–	–	–	–
Duan Xiaohua	23/23	–	–	–	–	3/3	–	2/2	2/2
Luo Yuxing	23/23	–	10/10	–	–	3/3	–	–	–
Wen Honghai	23/23	–	–	19/19	–	–	–	–	2/2
Sun Leland Li Hsun	23/23	–	10/10	–	4/4	3/3	6/6	–	–
Yin Mengbo	23/23	8/8	–	19/19	4/4	3/3	6/6	–	–
Yuan Zengting	23/23	8/8	10/10	19/19	–	–	–	2/2	–
Cao Guohua	23/23	–	–	–	4/4	3/3	6/6	2/2	1/1
Song Qinghua	23/23	/	/	5/5	/	/	5/5	/	1/1
Zhang Qiaoyun	–	–	–	–	–	–	–	–	–

Independent Non-executive Directors

For the year ended 31 December 2018, the Board of Directors at all times met the requirements of the Hong Kong Listing Rules relating to the appointment of at least three independent non-executive directors representing at least one-third of the Board of Directors, with at least one independent non-executive director possessing appropriate professional qualifications of accounting or related financial management expertise.

The independent non-executive directors of the Bank do not have any business or financial interests in the Bank and its subsidiaries, nor do they hold any management positions in the Bank. All of the existing independent non-executive directors of the Bank are elected for a term of three years. They are eligible for re-election as the Bank's independent non-executive directors upon expiry of the three-year term of office, provided that their terms of office shall not exceed six consecutive years.

Directors' Responsibility for the Preparation of Financial Reports

The directors acknowledge their responsibility for preparing the financial statements of the Bank for the year ended 31 December 2018. Directors are responsible for monitoring financial reports of each accounting or fiscal period to make sure such financial reports give a true and fair view of the Bank's financial conditions, operation results and cash flows. The directors adopted and implemented the applicable accounting policies and exercised prudent and reasonable judgment when preparing financial reports for the year ended 31 December 2018.

Continuous Professional Development Programme for Directors

Each newly appointed director should be given official, comprehensive and tailor-made information for his respective appointment upon his first appointment for the assurance of his appropriate understanding on the business and operation of the Bank and sufficient knowledge of the duties and responsibilities under the Hong Kong Listing Rules, laws and relevant regulatory requirements.

The training for directors shall be carried out on an on-going basis. The Bank encourages directors to participate in continuous professional development for developing and updating their knowledge and skills. During the Reporting Period, 13 directors of the Bank, namely executive directors Mr. Liu Jianzhong, Mr. Xie Wenhui and Mr. Zhang Peizong, non-executive directors Ms. Chen Xiaoyan, Mr. Duan Xiaohua, Mr. Luo Yuxing and Mr. Wen Honghai, independent non-executive directors Mr. Sun Leland Li Hsun, Mr. Yin Mengbo, Mr. Yuan Zengting, Mr. Cao Guohua, Mr. Song Qinghua and Mr. Zhang Qiaoyun, all received relevant trainings on the Guidelines for the Corporate Governance of Commercial Banks (《商業銀行公司治理指引》), directors' duties, accountability for violations and requirements regarding inside information organized by the Bank. The Bank also from time to time provided information to the directors on the latest development of the Hong Kong Listing Rules and the other applicable regulatory requirements, so as to ensure the directors are equipped with comprehensive information and are in line with the actual needs for their contribution to the Board of Directors and satisfactorily comply with the CG Code, as well as to enhance their sense of the corporate governance practices.

Board Committees

There are eight committees established under the Board of Directors: namely the strategic development committee, risk management committee, related party transaction supervision committee, nomination committee, remuneration committee, audit committee, Sannong financial services committee and consumer rights protection committee. Compositions of these committees are set out as follows:

(I) Strategic Development Committee

During the Reporting Period, the strategic development committee comprised 4 directors with Mr. Liu Jianzhong as the chairman, and Mr. Xie Wenhui, Mr. Yuan Zengting and Mr. Zhang Qiaoyun being its committee members.

The main responsibilities of the strategic development committee include:

1. to review the strategies and development plans of the Bank and give advice to the Board of Directors;

2. to review the annual operation plans and financial budgets of the Bank and submit the same to the Board of Directors for consideration;
3. to review significant reorganizations and agency arrangement of the Bank as well as the structure plan for its controlled subsidiaries, and give advice to the Board of Directors;
4. to review significant investment and financing projects and give advice to the Board of Directors;
5. to review the acquisition and merger plans of the Bank and give advice to the Board of Directors;
6. to perform relevant duties and powers stipulated by the securities supervision and administration institutions and relevant laws and regulations of the places where the Bank's shares are listed; and
7. to perform such other duties and powers as authorized by the Board of Directors.

During the Reporting Period, the strategic development committee of the board convened 8 meetings in total at which 16 proposals regarding the establishment of the major customer department, the 2018 financial budget plan, the 2018 organizational network planning, the medium-term capital planning for 2018 to 2020 and the issuance of financial bonds were considered. All the then members of the strategic development committee were present at the meetings mentioned above.

(II) *Risk Management Committee*

As at the end of the Reporting Period, the risk management committee of the Bank comprised 5 directors, with Mr. Xie Wenhui as the chairman, and Mr. Zhang Peizong, Ms. Chen Xiaoyan, Mr. Luo Yuxing and Mr. Yuan Zengting being its committee members.

The main responsibilities of the risk management committee include:

1. to review the risk management policy, risk preference and overall structure of risk management of the Bank based on the overall strategy of the Bank, and give advice to the Board of Directors;
2. to guide the construction of risk management and compliance management system;
3. to monitor and evaluate the construction of rule of law, the risk management, risk resistance and anti-money laundering of the Bank, and provide advice on improvement;
4. to review the risk management and compliance management reports of the Bank, carry out regular assessment on the risks and compliance of the Bank, and provide advice on improvement of the risk and compliance management of the Bank;

5. to put forward the overall requirements for risk prevention, review the general precaution policy on risky cases and work report on risk prevention of the Bank, carry forward the construction of risky case management system, and ensure that necessary measures are adopted by senior management to effectively supervise, warn and deal with risky cases, make assessment on the effectiveness of risky cases management of the Bank and ensure that effective inspection and supervision are conducted on risky case management by internal audit;
6. to perform relevant duties and powers stipulated by the securities supervision and administration institutions and relevant laws and regulations of the places where the Bank's shares are listed; and
7. to assess and supervise the development of new products, major change to existing products, expansion in new business sectors, establishment of new institutions, entering into material acquisition and investment and other risky matters of the Bank; to review our annual financial innovation plan/review our annual financial innovation project implementation report and submit the same to the Board of Directors for consideration/review; to consider and approve single innovative financial productions and improved financial products that require approval from or filing with external regulatory authorities. The above major change to existing products is considered to be improved financial products that require approval from or filing with external regulatory authorities; and
8. to perform such other duties and powers as authorized by the Board of Directors.

During the Reporting Period, the risk management committee convened 10 meetings in total at when 21 proposals including the 2017 anti-money laundering work report, the 2017 risk management evaluation report, 2017 compliance management evaluation report, and new innovative products business of "Securities Account Opening" were considered and reviewed. All the then members of the risk management committee were present at the meetings mentioned above.

(III) Related Party Transaction Supervision Committee

As at the end of the Reporting Period, the related party transaction supervision committee of the Bank comprised 5 directors, with Mr. Yuan Zengting (independent non-executive director) as the chairman, Mr. Zhang Peizong, Ms. Chen Xiaoyan, Mr. Wen Honghai and Mr. Song Qinghua being its committee members.

The primary responsibilities of the related party transaction supervision committee include:

1. to review the fundamental system of related transaction management and give advice to the Board of Directors;
2. to identify the related parties of the Bank and report to the Board of Directors and the Board of Supervisors;

3. to conduct preliminary examination on major related party transactions of the Bank and submit the same to the Board of Directors for approval, and to the Board of Supervisors in a timely manner after obtaining the approval from the Board of Directors;
4. to receive filings of general related party transactions;
5. to perform relevant duties and powers stipulated by the securities supervision and administration institutions and relevant laws and regulations of the places where the Bank's shares are listed; and
6. to perform such other duties and powers as authorized by the Board of Directors.

During the Reporting Period, the related party transaction supervision committee convened 19 meetings in total at which 31 resolutions regarding filing of general connected transaction in relation to grant of RMB720 million internal credit facility to Chongqing Tourism Investment Group Co. Ltd., and filing of major connected transaction in relation to grant of RMB900 million internal credit facility to Chongqing Yinhai Financial Leasing Co., Ltd. were considered and reviewed. All the then members of the related party transaction supervision committee were present at the meetings mentioned above.

(IV) *Nomination Committee*

As at the end of the Reporting Period, the nomination committee comprised 5 directors, with Mr. Zhang Qiaoyun (independent non-executive director) as the chairman, and Mr. Liu Jianzhong, Mr. Xie Wenhui, Mr. Sun Leland Li Hsun and Mr. Cao Guohua being its committee members. Majority of the members are independent non-executive directors.

The main responsibilities of the nomination committee include:

1. to assess the structure, size and composition of the Board of Directors and make recommendations on any proposed changes to the Board of Directors to complement the Bank's corporate strategies;
2. to formulate the standard and procedures for the selection of directors and senior management of the Bank, as well as submit the same to the Board of Directors for consideration;
3. to identify suitable candidates with relevant qualifications for directors, and make recommendation to the Board of Directors in respect of the candidates for directors, president and secretary to the Board of Directors;
4. to assess the independence of independent non-executive directors;
5. to review the candidates of other members of senior management nominated by the president and provide opinions thereof to the Board of Directors;

6. to perform relevant duties and powers stipulated by the securities supervision and administration institutions and relevant laws and regulations of the places where the Bank's shares are listed; and
7. to perform such other duties and powers as authorized by the Board of Directors.

During the Reporting Period, the nomination committee held 4 meetings in total at which 6 proposals regarding the nomination of the candidates for the fourth session of the Board of Directors, the appointments of president, secretary of the Board of Directors, vice presidents of the Bank were considered. All the then members of the nomination committee were present in person at the meetings mentioned above.

Diversity Policy on the Composition of the Board of Directors

On 27 August 2013, the Bank adopted the Diversity Policy on the Composition of the Board of Directors, the details of which are set out as follows:

1. Purpose

In accordance with the amendments to the CG Code as set out in Appendix 14 to the Hong Kong Listing Rules, to achieve objectives of diversity of the composition of the Board of Directors, the policy was thereby formulated.

2. Prospect

The Bank adhered to the Diversity Policy on the Composition of the Board of Directors, which was beneficial to the improvement of the good corporate governance of the Bank.

3. Policy statement

- (1) With a view to achieve the development strategy of operating with characteristics, management refinement and cultivating a good corporate culture, the Bank regarded the Diversity Policy on the Composition of the Board of Directors as a key factor to support strategic objectives and maintain sustainable development. In determining the composition of members, the Board of Directors considers the diversity of members from various aspects, including but not limited to gender, age, cultural and educational background, nation, professional experience, skills and knowledge.
- (2) The Board of Directors consists of executive directors, non-executive directors and independent non-executive directors, proportion of which shall satisfy domestic laws and regulations, administrative rules and the requirements of the Hong Kong Listing Rules.

- (3) The qualifications, standards and terms of the Board of Directors shall be in accordance with the requirements of regulatory authorities and regulations of the Articles of Association and take effect upon the qualification approval by the supervisory organization(s) of the banking industry.

4. Measurable Objectives

- (1) Based on a range of diversified categories, selection of board candidates shall be carried out from various perspectives such as gender, age, cultural and educational background, professional experience, skills, knowledge and so forth, pursuant to nomination ways and procedures of directors specified in the Articles of Association. The final decision of selection will be made according to advantages of candidates and contributions one can bring to the Board of Directors as well as the regulations of the Articles of Association.
- (2) The composition of the Board of Directors (including gender, age and service tenure) will be disclosed in the corporate governance report each year.

5. Monitoring and Reporting of the Policy

The nomination committee will report the composition of the Board of Directors on diversity level in the corporate governance report and supervise the implementation of the policy.

6. Review and Revision of the Policy

The nomination committee will examine and review the policy to ensure the effectiveness of the policy. The nomination committee will discuss any necessary revisions and propose such revisions to the Board of Directors for consideration and approval.

7. Policy to Take Effect

- (1) The policy will take effect from the date of approval by the Board of Directors and the Board of Directors reserves the right of interpretation under the policy.
- (2) The summary of the policy and the measurable objectives for implementation of such policy will be disclosed in the corporate governance report each year.

The Board of Directors will review such measurable objectives from time to time if necessary to ensure their suitability and confirm the progress towards achieving such objectives.

Working procedures of the nomination committee:

The nomination committee shall, in accordance with relevant laws, regulations, administrative rules, and provisions of the Articles of Association, and in consideration of the Bank's actual conditions, review the procedures and criteria for electing the Bank's directors and senior management members, and their terms of office; and shall submit to the Board of Directors the resolution thereof; and implement such resolution if it is passed by the Board of Directors.

The directors will be selected from the perspectives of gender, age, cultural and educational background, professional experience, skills and knowledge. On the premise of meeting the regulatory requirements, the final election decision will be made according to the advantages of candidates, professional level and contributions that can be made to the Board of Directors, and in accordance with the provisions of the Articles of Association.

Procedures for electing directors and senior management members:

- (I) the nomination committee shall, in consideration of the Bank's actual conditions, present the Bank's requirements for new directors and senior management members;
- (II) the nomination committee shall collect the information about the candidates' occupations, education backgrounds, professional titles, work experiences and their part-time jobs, etc.;
- (III) the nomination committee shall seek the nominated persons' agreement of the nomination, or they may not be selected as candidates for directors or senior management members;
- (IV) the nomination committee shall call a meeting of the nomination committee to review the qualifications of the preliminary elected candidates for the positions of directors and senior management members according to their credentials, and make recommendation to the Board of Directors;
- (V) the nomination committee shall carry out other subsequent work according to the Board of Directors' decision and feedback.

Major work of the nomination committee in 2018:

The nomination committee convened 4 meetings. The ninth meeting of the third session of the nomination committee considered and approved the resolution regarding the nomination of candidate for Director for the fourth session of the Board of Director of Chongqing Rural Commercial Bank Co., Ltd. The first meeting of the fourth session of the Board of Directors considered and approved the resolution regarding the appointment of President of Chongqing Rural Commercial Bank Co., Ltd., the resolution regarding the appointment of secretary to the Board of Directors of Chongqing Rural Commercial Bank Co., Ltd. and the resolution regarding the appointment of vice president of Chongqing Rural Commercial Bank Co., Ltd.

(V) *Remuneration Committee*

As at the end of the Reporting Period, the remuneration committee comprised 5 directors, with Mr. Song Qinghua (independent non-executive director) as the chairman and Mr. Zhang Peizong, Mr. Luo Yuxing, Mr. Yin Mengbo and Mr. Cao Guohua being its committee members. Majority of the members are independent non-executive directors.

The main responsibilities of the remuneration committee include:

1. to review the Bank's fundamental system and policy of remuneration management and submit the same to the Board of Directors for consideration;
2. to prepare the remuneration plans for directors and senior management, submit the same to the Board of Directors for consideration and supervise their implementation;
3. to review the appraisal of performance of duties of directors and senior management, make recommendation on remuneration allocation of directors and senior management according to the appraisal of performance of duties and remuneration allocation policy and submit the same to the Board of Directors for approval;
4. to perform relevant responsibilities and powers stipulated by the securities supervision and administration institutions and relevant laws and regulations of the places where the Bank's shares are listed; and
5. to perform such other duties and powers as authorized by the Board of Directors.

During the Reporting Period, the remuneration committee convened 3 meetings in total at which 7 proposals including 2017 report on appraisal of directors and senior management and mutual evaluation of independent directors by the Board of Directors, remuneration plan of directors and the amendment of the working rules of the remuneration committee under the Board of Directors were considered and reviewed. All the then members of the remuneration committee were present at the meetings above.

Working procedures of the remuneration committee:

The office of the Board of Directors shall be responsible for the preparation for the remuneration committee's decision-making, and shall prepare the following materials:

- (I) the key financial indicators and progress in reaching the business objectives of the Bank;
- (II) the information about the extent to which the objectives of the work performance appraisal system are reached by the directors and the senior management;
- (III) the information about the directors' and senior management's business innovation ability and operation performance based on such ability; and
- (IV) the basis of calculation in the formulation of the remuneration allocation plans and method in accordance with the performance of the Bank.

The procedures for evaluation by the remuneration committee on the directors and the senior management:

To consider and examine the information submitted by the office of the Board one by one; to submit to the Board of Directors for consideration the recommendation on the remuneration for the directors and senior management, and the rewarding method in accordance with the result of appraisal of performance of duties and the remuneration allocation policy, after it is passed by voting.

Major work of the remuneration committee in 2018:

During the Reporting Period, the remuneration committee convened 3 meetings in total at which 7 proposals including the Plan regarding the Remuneration of Directors of Chongqing Rural Commercial Bank Co., Ltd. and 2017 report on appraisal of directors and senior management and mutual evaluation of independent directors of Chongqing Rural Commercial Bank Co., Ltd. All the then members of the remuneration committee were present at the meetings above.

(VI) *Audit Committee*

As at the end of the Reporting Period, the audit committee comprised 3 directors, with Mr. Cao Guohua (independent non-executive director) as the chairman, and Mr. Song Qinghua and Mr. Zhang Qiaoyun being its committee members and all members are independent non-executive directors, which is in compliance with the requirements under Rule 3.21 of the Hong Kong Listing Rules.

The main responsibilities of the audit committee include:

1. to supervise the internal control of the Bank, and examine and evaluate the compliance of significant operating activities of the Bank;
2. to review the major financial policies of the Bank and their implementation, supervise the financial operation, monitor the truthfulness of financial reports and the effectiveness of implementing the financial report procedure by the management;
3. to supervise and evaluate the internal audit work of the Bank as well as the internal audit system of the Bank and its implementation;
4. to propose to appoint or change the external auditor, adopt appropriate measures to supervise the performance of the external auditor and ensure the independence of the audit work;
5. to review the annual audit report, interim report on financial review and other financial and accounting reports of the Bank and other discloseable financial information prepared by the external auditor, and make a judgment report on the truthfulness, accuracy and completeness of such reports and information and submit such judgment report to the Board of Directors for consideration;
6. to review important regulations and reports such as the internal audit charter, medium and long-term audit plans and annual audit plans, and submit to the Board of Directors for consideration;
7. to coordinate between the internal audit department and the external auditor;
8. to ensure that attention will be drawn to the improprieties of the employees of the Bank that may occur in financial reporting, internal control or other areas, and procure the Bank to carry out fair and independent investigation and take appropriate actions in respect of such matters;
9. to perform relevant duties and powers stipulated by the securities supervision and administration institutions and relevant laws and regulations of the places where the Bank's shares are listed; and
10. to perform such other duties and powers as authorized by the Board of Directors.

During the Reporting Period, the audit committee held 6 meetings in total, at which 22 proposals including 2018 internal audit work plan, 2017 annual report and results announcement, appointment of external auditor and determination of their remuneration for 2018 were considered and reviewed. All the then members of the audit committee were present at the meetings mentioned above. In addition, the Bank also convened 2 meetings for audit committee and external auditors in accordance with the provisions of CG Code.

(VII) Sannong Financial Services Committee

As at the end of the Reporting Period, the sannong financial services committee consists of 5 directors, with Mr. Liu Jianzhong as the chairman, and Mr. Xie Wenhui, Mr. Duan Xiaohua, Mr. Yuan Zengting and Mr. Cao Guohua being the committee members.

The main responsibilities of sannong financial services committee are:

1. To examine and approve the Bank's Sannong financial services development strategy planning;
2. To examine and approve the Bank's annual Sannong financial services development goal;
3. To examine and approve the Bank's Sannong financial services resource allocation plan;
4. To supervise and evaluate the implementation situation of Sannong financial services by the Bank's operation and management layer, and report to the Board of Directors;
5. The relevant functions and powers stipulated by securities regulatory authority and the relevant laws and regulations in the place where the Bank's shares were listed; and
6. Other functions and powers conferred by the Board of Directors.

During the Reporting Period, sannong financial service committee convened 2 meetings to consider the 2017 Work Report on Sannong Financial Services of Chongqing Rural Commercial Bank Co., Ltd. and the Specific Report on Rural Revitalization Financial Services of Chongqing Rural Commercial Bank Co., Ltd. All the then members of Sannong Financial Services Committee attended the meetings.

(VIII) Consumer Rights Protection Committee

As at the end of the Reporting Period, the consumer rights protection committee comprises 5 directors, with Mr. Xie Wenhui as the chairman, and Mr. Duan Xiaohua, Mr. Wen Honghai, Mr. Song Qinghua and Mr. Zhang Qiaoyun being the committee members.

The main responsibilities of Consumer Rights Protection Committee are:

1. To review the management measures for the consumer rights protection of the Bank according to the general plan of the Bank and make recommendations to the Board of Directors;
2. To review the Bank's plan on consumer rights protection, evaluate the Bank's consumer rights protection work and provide comments on enhancing the Bank's consumer rights protection work;

3. To review the audit of consumer rights protection according to the annual audit plan for consumer rights protection;
4. To review the Bank's report on consumer rights protection and the rectification report on consumer rights protection; and
5. Other functions and powers conferred by the Board of Directors.

During the Reporting Period, the consumer rights protection committee convened 2 meetings to review the resolution regarding the Consumer Rights Protection for 2018 of Chongqing Rural Commercial Bank Co., Ltd., the 2018 Work Report on Consumer Rights Protection of Chongqing Rural Commercial Bank Co., Ltd. and the resolution regarding the Consideration of Appraisal Results of Consumer Rights Protection for 2018, etc. All the then members of the consumer rights protection committee were present at the meetings.

BOARD OF SUPERVISORS

Composition of the Board of Supervisors

At the end of the Reporting Period, the Board of Supervisors comprised 8 supervisors, including 2 shareholder representative supervisors, namely Mr. Zeng Jianwu and Ms. Zuo Ruilan, 3 external supervisors, namely Mr. Hu Shuchun, Mr. Pan Like and Mr. Wang Hong; 3 employee representative supervisors, namely Ms. Ni Yuemin (chairwoman of the Board of Supervisors), Mr. Zheng Yi and Mr. Zhu Yuzhou.

Our supervisors are elected for a term of three years and may be subject to re-election upon expiration of their terms of office. Our external supervisor are elected for a term of three years and are eligible for re-election, provided that their terms of office shall not exceed six consecutive years.

Chairwoman of the Board of Supervisors

At the end of the Reporting Period, Ms. Ni Yuemin serves as the chairwoman of the Board of Supervisors and is responsible for organization and performance of duties of the Board of Supervisors.

Meetings of the Board of Supervisors

In 2018, the board of supervisors of the Bank held 9 meetings at which 30 proposals mainly including annual conclusion of the Board of Supervisors, report on centralized supervision and inspection, various types of special investigation reports, financial budgets and accounts, profit distribution and report on internal control evaluation were considered and approved.

Attendance records of the supervisors at meetings of the Board of Supervisors during the Reporting Period are set out as follows:

Actual attendance/meetings required to attend during the term of office

**Board of
Supervisors**

Supervisors

Ni Yuemin	9/9
Zeng Jianwu	9/9
Zuo Ruilan	9/9
Hu Shuchun	9/9
Pan Like	9/9
Wang Hong	9/9
Zheng Yi	9/9
Zhu Yuzhou	9/9

CHAIRMAN AND PRESIDENT

The roles and functions of the chairman and the president of the Bank are carried out by different individuals. The chairman of the Board of Directors is the legal representative of the Bank, and is responsible for planning the overall strategies of the Bank and leading the Board of Directors so as to ensure that it functions efficiently and discusses all material matters in a timely manner.

The president of the Bank is responsible for the Bank's business development and the management and operation of overall business. The president is appointed by and is accountable to the Board of Directors and discharges his duties in accordance with the Articles of Association and the authorization of the Board of Directors.

The roles of the chairman and the president are separate and their duties are clearly defined. The senior management takes charge of the daily operation and management.

APPOINTMENT OF DIRECTORS

The term of office of directors of the Bank (including non-executive directors) is three years, and directors may be re-elected upon expiration of their term of office. The term of office of independent non-executive directors is three years, and they are eligible for serving as independent non-executive directors of the Bank upon expiration of their term of office, provided that their terms of office shall not exceed six consecutive years.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Bank has adopted, in respect of securities transactions by directors, supervisors and relevant employees, the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Hong Kong Listing Rules. Having made specific enquiries with all directors and supervisors, all directors and supervisors confirmed that they have complied with the Model Code for the year ended 31 December 2018.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The audit opinion of the external auditors of the Group engaged by the Bank and their responsibilities are set out in the "Independent Auditor's Report" on pages 167 to 174.

The Group's financial statements for the year ended 31 December 2018 prepared in accordance with China Accounting Standards have been audited by PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership), and those prepared in accordance with IFRSs have been audited by PricewaterhouseCoopers. PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers provided audit services to the Bank. The fees paid by the Bank to PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers for the audit of financial statements for the year ended 31 December 2018 were RMB3.10 million. Other non-audit fees (inclusive of tax) were RMB1.65 million, of which fees for the review of financial statements amounted to RMB1.15 million and fees for agreed process services were RMB500,000. Save for the abovementioned, there were no other significant non-audit services.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Directors has overall and ongoing responsibility for the internal control system and risk management procedures of the Bank. The Board of Directors has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system. The risk management and internal control systems can only provide reasonable but not absolute assurance against material misstatement or loss. It is designed to manage, rather than eliminate, the risk of failure to achieve business objectives.

The Board of Directors placed utmost emphasis on the establishment of internal control. The Bank adhered to internal control rules such as the Basic Rules on Enterprise Internal Control (企業內部控制基本規範) promulgated by five ministries and commissions including the Ministry of Finance, the Internal Control Guidelines for Commercial Banks (商業銀行內部控制指引) issued by the CBIRC (the former CBRC), together with the Outline of Internal Control Management (內部控制管理大綱) (the "Outline") formulated by the Bank itself as the underlying basis and framework for effecting internal control across the Bank, as well as the guiding principles for carrying out various kinds of businesses and managerial activities. The Outline constitutes the layout of the internal control system of the Bank and sets out the objectives, policies and principles thereof. It maps out five constituents of the internal control system which include internal control environment, risks identification and assessment, internal control measures, monitoring feedbacks and rectification as well as the principles and requirement for information exchange and feedbacks. In addition, it laid out principles in controlling specifically in the areas of credit, capital, deposits, card business, account management, financial activities and information system.

The Board of Directors is responsible for establishing a sound internal control and risk management system and its effective implementation. The Board of Supervisors supervises the establishment and implementation of internal control and risk management system of the Board of Directors and the senior management. The senior management is responsible for the daily operation of internal control and risk management of the Bank. Meanwhile, the Board of Directors has established the audit committee, the risk management committee and the related party transaction supervision committee to assist the Board of Directors in fulfilling its oversight and corporate governance roles in the Group's finance, operation, compliance, risk management and internal controls, and the financial resources and internal audit functions.

The Bank has established an organizational structure with defined levels of responsibility and reporting procedures. The annual work plan of Internal Audit department of the Bank covers major activities and processes of the Group's operations and businesses. Special reviews were also performed at management's request. Audit issues were tracked, followed up for proper implementation, and their progress were reported to the Board of Directors and the senior management periodically. The Risk Management, Compliance and Internal Audit department, which co-ordinated enterprise risk management activities and reviewed significant direction of risk management for the Group, assisted the Board of Directors in reviewing the effectiveness of the Group's risk management and internal control systems on an ongoing basis and reported to the Board of Directors at each regularly scheduled meeting throughout the year the results of their activities during the preceding period pertaining to the adequacy and effectiveness of internal controls, etc.

The Bank has embedded its risk management systems into the core operating practices of the business. On an ongoing basis, it will review and assess the status of potential risks which may impact on their ability to achieve the business objectives of the Bank. This review process includes assessment as to whether the existing system of internal controls continues to remain relevant, adequately addresses potential risks, and/or should be supplemented. The results of these reviews are reported to the senior management and the Board of Directors periodically and regularly.

The Bank has adopted procedures to regulate the handling and dissemination of insider information, ensuring the confidentiality before the disclosure of such information is properly approved and an effective and consistent manner in which such information is to be disclosed.

While actively pushing ahead with restructuring, optimization of system, procedures and IT system, the Board of Directors, the Board of Supervisors and the senior management will maintain its ongoing focus on the efficiency of internal control to enhance capabilities of its functional departments, branches and sub-branches in terms of risk aversion and control, whereby boosting operation effectiveness and results.

For the year ended 31 December 2018, the Board of Directors have completed the semi-annual and annual assessment on the effectiveness of the internal control and risk management systems of the Bank (twice per year on a regular basis). The assessment covered all the major control of the Group, including financial control, operation control and compliance control as well as the functions of risk management. The Board of Directors believes that, the overall operation of the Bank's risk management and internal control systems is sufficient and effective in respect of resources, staff qualification and experience, training programme as well as accounting, internal audit and budgeting of financial report. No major issues should be concerned with during the year.

COMPANY SECRETARY

The company secretary of the Bank, Ms. Mok Ming Wai (莫明慧女士), resigned on 16 November 2018. Ms. Chu Wai Ha (朱慧霞女士) was appointed as the company secretary of the Bank on the same day. Ms. Mok and Ms. Chu are engaged from external service provider and have complied with the requirements of Rule 3.29 of the Hong Kong Listing Rules of receiving relevant professional training for not less than 15 hours during the Reporting Period.

During the Reporting Period, the main contact person in the Bank to liaise with Ms. Mok and Ms. Chu was Mr. Zhu Guochen, former Director of the office of the Board of Directors. Since January 2019, the main contact person is Ms. Huang Wei, the deputy head of the office of the Board of Directors.

RIGHTS OF SHAREHOLDERS

Request for Convening Extraordinary General Meeting

Shareholders can refer to the existing Articles of Association posted on the websites of Hong Kong Stock Exchange and the Bank for the procedures of requesting to convene extraordinary general meetings.

Proposals in General Meeting

Shareholders can also refer to the existing Articles of Association posted on the websites of Hong Kong Stock Exchange and the Bank for the procedures of putting forward proposals at general meetings.

Shareholders can refer to the Procedures for Nominating Candidates for Directors (《提名候選董事程序》), Procedure Rules of the Board of Directors (《董事會議事規則》), Procedure Rules of the General Meeting (《股東大會議事規則》) and the prevailing effective Articles of Association published on the websites of Hong Kong Stock Exchange and the Bank for the procedures of nominating directors.

SHAREHOLDERS' ENQUIRIES

Any enquiries related to the shareholding of H shares, including the transfer of shares, change of address, loss of share certificates and dividend warrants, should be sent in writing to the following address:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
Telephone: (852) 2862 8555
Facsimile: (852) 2865 0990 / (852) 2529 6087

Any enquiries related to the shareholding of domestic shares, including the transfer of shares, change of basic information should be sent in writing to the following address:

Office of the Board of Directors of the Bank
No. 36 Jinshamen Road, Jiangbei District, Chongqing, China
Telephone: (8623) 6111 0846 / 6111 0853
Facsimile: (8623) 6111 0844

INFORMATION DISCLOSURE

The Bank places great emphasis on the communications with its shareholders and strives to enhance understanding and communication through many channels such as general meetings, results announcement meetings, roadshows, receiving visitors and answering telephone enquiries.

INVESTOR RELATIONS

Amendments to the Articles of Association

The resolutions on amendments to the Articles of Association, among others, were considered and approved at the 2018 first extraordinary general meeting of the Bank which was held on 21 September 2018. The Approval of Change of Registered Capital and Amendments to the Articles of Association by Chongqing Rural Commercial Bank (Yu Yin Bao Jian Fu [2019] No. 11) (《關於重慶農村商業銀行變更註冊資本和修改公司章程的批覆》(渝銀保監覆[2019]11號)) was approved and issued subsequently by the CBIRC Chongqing Office on 7 January 2019, approving the amended Articles of Association passed at the 2018 first extraordinary general meeting of the Bank and further amended by the Board of Directors within the scope of authorization. The amended Articles of Association has become effective since the date of the approval from the CBIRC Chongqing Office.

The amendments to the Articles of Association of the Company mainly include: (I) In accordance with the relevant requirements of the Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》), the Bank amended the obligations of ordinary shareholders of and the regulations that such shareholders shall comply with as required by the regulatory requirements, and emphasized the obligations of substantial shareholders, so as to prevent the shareholders from carrying out improper related transactions and further standardize the relevant provisions of holding shares and transferring shares by the shareholders. (II) In accordance with the Guidelines on the Corporate Governance of Commercial Banks (《商業(銀行)公司治理指引》), the Hong Kong Listing Rules and the the Implementation Measures for Administrative Licensing Issues of Rural Small and Medium-sized Financial Institutions by the CBRC (《中國銀監會農村中小金融機構行政許可事項實施辦法》), the Bank amended the relevant requirements concerning the time of performance of duties of directors, the prohibition of being independent directors as well as the qualification requirements of directors, supervisors, president and other senior management. (III) In accordance with the Notice on Circulating Green Loan Guidelines (《關於印發綠色信貸指引的通知》), the Notice on Circulating Management Guidelines of Practitioners of Banking Financial Institutions (《關於印發銀行業金融機構從業人員行為管理指引的通知》) and the Notice on Circulating Data Governance Guidelines of Banking Financial Institutions (《關於印發銀行業金融機構數據治理指引的通知》), the Bank added corresponding powers of the Board of directors and the president into powers of the Board of directors and the president. (IV) In accordance with the Guiding Opinions on Comprehensively Advancing the Rule of Law of the Municipal State-owned Enterprises in Cities (《關於全面推進市屬國有企業法治建設的指導意見》) by Chongqing State-Owned Assets Supervision and Administration Commission, firstly, the section headed “General Counsel” was added to clearly set up the position of general counsel and determine the duties of general counsel; secondly, the idea of “running enterprises according to law” was incorporated into the Articles of Association, improving the level of making decisions by the Board of directors according to law and promoting the construction of the rule of law in the Bank. (V) In accordance with Supervision and Management Measures for Unlisted Public Companies (《非上市公眾公司監督管理辦法》) and other relevant requirements, firstly, the Bank added requirements concerning the transfer of domestic shares; secondly, the Bank added specific provisions to prevent shareholders and their related parties from occupying or transferring corporate funds, assets and other resources; thirdly, the Bank added relevant requirements on information disclosure and reporting to regulatory bodies. (VI) In accordance with the Constitution of the Communist Party of China (《中國共產黨黨章》) revised in 2017, the Bank amended the description of the Party Committee to conform to the Constitution. (VII) Combining with the actual situation, the Bank added relevant provisions and responsibilities of the Sannong Financial Service Committee and Consumer Rights Protection Committee.

For details, Shareholders may refer to the announcements dated 25 June 2018, 21 September 2018 and 10 January 2019 and the circular dated 7 August 2018 of the Bank in relation to the proposed amendments to the Articles of Association. The updated existing Articles of Association was disclosed on the websites of the Bank (www.cqrcb.com) and the Hong Kong Stock Exchange (www.hkexnews.hk), respectively on 10 January 2019.

Investor Relations Contact Information

Shareholders and investors may send enquiries to the Board of Directors to the following:

Office of the Board of Directors of the Bank
No. 36 Jinshamen Road, Jiangbei District, Chongqing, China
Telephone:(8623) 6111 1533
Facsimile:(8623) 6111 0844
Email:ir@cqrcb.com

Principal Place of Business in Hong Kong of the Bank:

31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong

This annual report is available on the websites of the Bank (www.cqrcb.com) and Hong Kong Stock Exchange (www.hkexnews.hk).

OTHER PARTICULARS

The Bank holds a financial license number B0335H250000001 approved by the China Banking Regulatory Authority, and was authorized by the Administration for Industry and Commerce of Chongqing to obtain a corporate legal person business license with a unified social credit code 91500000676129728J. The Bank is not an authorized institution in accordance with the Hong Kong 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 and deposit-taking business in Hong Kong.

Directors, Supervisors and Senior Management

INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Name	Position	Gender	Age	Term of office
Liu Jianzhong	Secretary to the Party Committee, Chairman of the Board of Directors, Executive Director	Male	55	June 2008 –
Xie Wenhui	Deputy Secretary to the Party Committee, President, Executive Director	Male	46	August 2014 –
Zhang Peizong	Member of the Party Committee, Vice President, Executive Director	Male	44	December 2018 –
He Zhiming	Non-executive Director	Male	55	November 2015 – October 2018
Sun Lida	Non-executive Director	Male	63	October 2014 – September 2018
Chen Xiaoyan	Non-executive Director	Female	46	November 2015 –
Duan Xiaohua	Non-executive Director	Male	44	August 2014 –
Luo Yuxing	Non-executive Director	Male	56	January 2018 –
Wen Honghai	Non-executive Director	Male	53	June 2008 –
Sun Leland Li Hsun	Independent Non-executive Director	Male	57	July 2012 –
Yin Mengbo	Independent Non-executive Director	Male	63	July 2012 –
Yuan Zengting	Independent Non-executive Director	Male	43	November 2014 –
Cao Guohua	Independent Non-executive Director	Male	51	November 2014 –
Song Qinghua	Independent Non-executive Director	Male	53	September 2017 –
Zhang Qiaoyun	Independent Non-executive Director	Male	56	December 2018 –

Note: The term of office of Directors in the above table is counted from the date on which each Director has obtained the qualification approval from the CBIRC Chongqing Office (former “Banking Regulatory Commission Chongqing Bureau”).

Executive Director Mr. Zhang Peizong and non-executive Director Mr. Zhang Qiaoyun have obtained the qualification approval from the CBIRC Chongqing Office on 25 December 2018.

Supervisors

Name	Position	Gender	Age	Term of office
Ni Yuemin	Chairwoman of the board of supervisors, Employee Representative Supervisor	Female	52	February 2015—
Hu Shuchun	External Supervisor	Male	49	October 2014—
Pan Like	External Supervisor	Male	45	October 2014—
Wang Hong	External Supervisor	Male	52	October 2014—
Zeng Jianwu	Shareholder Representative Supervisor	Male	43	June 2008—
Zuo Ruilan	Shareholder Representative Supervisor	Female	43	June 2008—
Zheng Yi	Employee Representative Supervisor	Male	53	November 2011—
Zhu Yuzhou	Employee Representative Supervisor	Male	53	November 2011—

Directors, Supervisors and Senior Management

Senior Management

Name	Position	Gender	Age	Term of office
Xie Wenhui	Deputy Secretary to the Party Committee, President, Executive Director	Male	46	December 2013—
Wang Min	Member of the Party Committee, Vice President	Male	55	July 2015—
Yuan Xiaobo	Deputy Secretary to the Party Committee Chairman of the Trade Union	Male	55	December 2008— March 2010—
Dong Lu	Member of the Party Committee, Vice President	Female	43	May 2011—
Xiang Zhaochang	Member of the Party Committee, Secretary to the Disciplinary Committee	Male	55	October 2018—
Shu Jing	Member of the Party Committee, Vice President	Female	46	October 2015—
Liu Jiangqiao	Member of the Party Committee, Vice President	Male	48	October 2015—
Zhang Peizong	Secretary to the Board Member of the Party Committee, Vice President Executive Director Director of CQRC Financial Leasing Co., Ltd.	Male	44	September 2016— September 2016— July 2018—
Gao Song	Member of the Party Committee, Vice President	Male	39	September 2016—

Note: The term of office of Mr. Zhang Peizong as the director of CQRC Financial Leasing Co., Ltd. is counted from the date on which he has obtained the qualification approval from the Banking and Insurance Regulatory Commission Chongqing Bureau.

MAJOR WORK EXPERIENCE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Directors of the Bank

LIU Jianzhong

Secretary to the Party Committee, Chairman of the Board of Directors, Executive Director

Mr. Liu Jianzhong has been the secretary to the party committee, chairman of the Board of Directors and executive director of the Bank since June 2008 (currently as the chairman of the strategic development committee, the chairman of Sannong financial service committee and a member of the nomination committee). Mr. Liu received a master's degree in Industrial Engineering from Chongqing University in 2005. He received a doctorate degree in economics of finance major from Southwestern University of Finance and Economics in 2015. He is currently a senior economist accredited by Chongqing Municipal Government. Between December 2014 and March 2016, Mr. Liu served as the Secretary to the Party Committee and the Chairman to the Board of CQRC Financial Leasing. Between November 2002 and June 2008, Mr. Liu held a number of positions at the Chongqing Rural Credit Cooperative Union, including secretary and deputy secretary to the Party committee, director-general, director and deputy director. Prior to joining the Bank and between September 1992 and November 2002, Mr. Liu held several positions at the Chongqing business management department of the PBOC Chongqing Operations Office, including division director and deputy division director of the Cooperative Financial Institution Regulatory Division, a director and deputy director of the logistics services center and deputy division director of the Administration Office, office cadre and principal staff member. Mr. Liu worked for the frontier inspection station at the Chongqing Airport between February 1985 and September 1992.

XIE Wenhui

Deputy Secretary to the Party Committee, President, Executive Director

Mr. Xie Wenhui has been the deputy secretary to the party committee and the president of the Bank since December 2013. He has been served as an executive Director of the Bank since August 2014. He also serves as the chairman of the risk management committee, the chairman of the consumer rights protection committee, a member of the strategic development committee, the nomination committee, Sannong financial service committee. Mr. Xie obtained a bachelor's Degree of Engineering in precision instrument and mechanism from Chongqing University in 1994 and obtained a master's degree in precision instrument and machinery engineering from Chongqing University in July 1997 and is currently an economist and engineer. Mr. Xie had been a member of the Party committee and a deputy president of the Bank from May 2011 to December 2013. Mr. Xie served as the general manager and the deputy general manager (in charge of work) of the Technology Department at the headquarters of the Bank from August 2008 to May 2011. Mr. Xie also served as the deputy general manager and assistant to general manager at the Technology Department in Chongqing Rural Credit Cooperative Union from January 2007 to August 2008. Prior to joining the Bank, Mr. Xie served as a deputy director of the Technology Division at the Chongqing Branch of Industrial and Commercial Bank of China from March 1998 to January 2007. Mr. Xie worked in Zhuhai Software Development Centre of Industrial and Commercial Bank of China from July 1997 to March 1998.

ZHANG Peizong

Member of the Party Committee, Vice President, Executive Director

Mr. Zhang Peizong has served as the member of the party committee and vice president of the bank since september 2016. he has also served as the executive Director of the Bank since December 2018. He also serves as a member of the risk management committee, remuneration committee and related party transaction supervision committee. Mr. Zhang obtained a Bachelor of Arts in Chinese language and literature from Chongqing Normal Academy(重慶師範學院) in July 1998. Mr. Zhang obtained a Master's Degree in project management from Chongqing University in December 2008. He is currently a senior economist. (He has served as a Director of CQRC Financial Leasing Co., Ltd. since July 2018). Mr. Zhang served as the secretary to the Party Committee and the chairman of CQRC Financial Leasing Co., Ltd. from March 2016 to January 2017, deputy secretary to the party committee and the president of of CQRC Financial Leasing Co., Ltd. from November 2014 to March 2016. He assumed various positions in the Bank from August 2008 to November 2014, including secretary to the party committee and the person in charge of Beibei Branch, secretary to the party committee, the person in charge, general manager of Development Research Department and general manager of Development Planning Department of Tongliang Branch. He served various positions in Chongqing Rural Credit Cooperative Union, including general manager of department of investigation and statistics, council secretary (general manager level), deputy head of the general office from June 2004 to August 2008 and secretary to the general office of Chongqing Rural Credit Cooperative Union from February 2001 to June 2004. He served as secretary to the general office of Chongqing Bishan Rural Credit Cooperative Union from February 1999 to February 2001, and worked at the Hebian Rural Credit Cooperative of Chongqing Bishan Rural Credit Cooperative Union from July 1998 to February 1999.

CHEN Xiaoyan

Non-Executive Director

Ms. Chen Xiaoyan was appointed as the non-executive director of the Bank from November 2015. She also served as the member of the risk management committee and the Related Party Transaction Control Committee of the Bank. Ms. Chen graduated from Chongqing College of Technology (重慶工學院) with a bachelor degree in accounting in June 2000, and is currently a senior accountant. Ms. Chen Xiaoyan has served as the chief financial officer of Chongqing Transport and Travel Investment Group Company Limited (重慶交通旅遊投資集團有限公司) since August 2014 and concurrently served as the head of Financial Department of the same company from May 2012 to August 2014. She worked at the Financial Department of Chongqing Land Group (重慶市地產集團) from April 2011 to May 2012, and worked at the Financial Department of Chongqing International Construction Corporation (重慶對外建設總公司) from January 1999 to April 2011 during which she consecutively served as the deputy chief clerk, deputy head and the head of Financial Department. From September 1989 to January 1999, she worked at the financial office of Chongqing Wandefu Food Company Limited (重慶市萬得福食品有限公司).

DUAN Xiaohua

Non-Executive Director

Mr. Duan Xiaohua has served as a non-executive director of the Bank since August 2014. He is a member of Sannong financial service committee and Consumer Rights Protection Committee of the Bank. Mr. Duan graduated from Chongqing University with MBA from September 2003 to July 2005, and currently holds an MBA degree, and he is an accountant and a certified internal auditor. Mr. Duan has served as the vice president and financial controller of USUM Investment Group Limited (渝商投資集團股份有限公司) since September 2018. From September 2017 to September 2018, he served as the assistant to president and financial controller of Loncin Holdings Company Limited (隆鑫控股有限公司). Mr. Duan has served as a non-executive director of Hanhua Financial Holding Co., Ltd. (瀚華金控股份有限公司) (a company listed on the Hong Kong Stock Exchange, stock code: 3903) since June 2013. He has also served as a director of Shanghai Fenghua Group Co., Ltd. (上海豐華(集團)股份有限公司) since October 2012 and its financial controller from October 2010 to September 2017. From March 2012 to October 2012, he served as the financial controller of Loncin Holdings Company Limited (隆鑫控股有限公司). From March 2008 to March 2012, he served as the financial manager, vice financial president and financial president of Chengdu Fudi Property Co., Ltd. (成都複地置業有限公司). From May 2007 to March 2008, he served as the finance assistant manager of Hutchison Whampoa Property (Xi'an) Co., Ltd. (和記黃埔地產西安公司). From June 2003 to May 2007, he served as the chief of the Finance Department of Taiji Industry (Group) Co., Ltd. (太極集團有限公司). From June 2000 to June 2003, he served as the deputy director of the Finance Department of Taiji Group Sales General Company (太極集團銷售總公司). From July 1998 to June 2000, he served as a clerk and the deputy head of the Finance Division of Taiji Industry (Group) Co., Ltd. (太極集團有限公司).

LUO Yuxing

Non-executive Director

Mr. Luo Yuxing has served as a non-executive director of the Bank since January 2018. He is a member of the risk management committee and remuneration committee of the Bank. Mr. Luo graduated from Southwest University of Political Science & Law, with a bachelor's degree in applied law in June 1997, and is currently a government lawyer, senior judge (Grade 4) and a member of the Social and Legal Committee of the Third Session of Chongqing Municipal Committee of the Chinese People's Political Consultative Conference. Mr. Luo has been a director of Casin Guoxing Property Development Co., Ltd. (財信國興地產發展股份有限公司) since December 2018. Mr. Luo has been the chairman of the board of directors and legal person of Casin Financial Investment Group Co., Ltd. (財信投資集團有限公司) and Chongqing Caixin Environmental Protection Investment Co., Ltd. (重慶市財信環保投資股份有限公司) since December 2017. Mr. Luo has been a director of Sino-Australian International Trust Co., Ltd. (華澳國際信託有限公司) since May 2016. Mr. Luo has been a director of Chongqing Casin Environment Resources Co., Ltd. (重慶財信環境資源股份有限公司) since January 2016. Mr. Luo has been the senior vice president and executive vice president of Chongqing Casin Group Co., Ltd. (重慶財信企業集團有限公司) successively since May

Directors, Supervisors and Senior Management

2015. From July 2007 to February 2015, he served as the secretary to the Party committee and general manager of Ancheng Property & Casualty Insurance Co., Ltd. (安誠財產保險股份有限公司). From June 2005 to February 2008, Mr. Luo served as the secretary to the Party committee and general manager of Chongqing Yukafa Co., Ltd. (重慶渝開發股份有限公司). From December 2004 to February 2015, he served successively as a member of the Party committee and the director of legal audit department of Chongqing City Construction Investment (Group) Company Limited (重慶市城市建設投資(集團)有限公司). From June 2003 to December 2004, he served as the secretary to Party working committee and chairman of the Municipal Greening Management Committee of Jiangbei District, Chongqing. From April 2003 to June 2003, he served as the deputy director of general office and director of the Policy Study Office (政策研究室) of the Government of Jiangbei District, Chongqing. From October 1993 to April 2003, he served as a member of the Party group and the vice president of the Court of Jiangbei District, Chongqing. From May 1982 to October 1993, he served successively as a prosecutor and deputy chief procurator in the Procuratorate of Jiangbei District, Chongqing.

WEN Honghai

Non-Executive Director

Mr. Wen Honghai has been a non-executive director of the Bank since June 2008. He is also a member of the related party transaction supervision committee and Consumer Rights Protection Committee of the Bank. Mr. Wen obtained a bachelor's degree in Economics and Finance from Renmin University of China (中國人民大學) in 1988. Mr. Wen has also been the director and vice president of the Huaxin Century Investment Group Co., Ltd. since March 2001 and served as deputy finance manager and finance manager of Huaxin Century Investment Group Co., Ltd. from June 2000 to March 2001. From November 1996 to June 2000, Mr. Wen was the finance manager of China Enterprise International Investment Co. Ltd. From April 1992 to November 1996, Mr. Wen worked as the manager of the China Rural Development Trust and Investment Company and lectured in Renmin University of China (中國人民大學) during the period from September 1988 to April 1992.

SUN Leland Li Hsun*Independent Non-Executive Director*

Mr. Sun Leland Li Hsun has been an independent non-executive director of the Bank since July 2012. He also serves as a member of the nomination committee of the Bank. Mr. Sun graduated from UCLA Anderson School of Business with MBA from 1984 to 1986. Mr. Sun has served as an independent non-executive director of Chevalier International Holdings Limited (其士國際集團有限公司) (a company listed on the Hong Kong Stock Exchange, stock code: 00025) since February 2019, an independent non-executive director of Quanzhou Huixin Micro-credit Co., Ltd. (泉州匯鑫小額貸款股份有限公司) (a company listed on the Hong Kong Stock Exchange, stock code: 01577) since June 2017, an independent non-executive director of Mizuho Securities Asia Limited (瑞穗證券亞洲有限公司) since December 2014, and the managing director of Pan Asian Mortgage Company Limited (宏亞按揭證券有限公司) since December 1999. From November 2005 to June 2014, Mr. Sun served as an independent non-executive director of New Heritage Holdings Ltd. (新澤控股有限公司) (a company listed on the Hong Kong Stock Exchange, and is now known as LVGEM (China) Real Estate Investment Company Limited (綠景(中國)地產投資有限公司), stock code: 00095). Mr. Sun was the consultant of Merrill Lynch Asia Pacific Limited (美林亞洲有限公司) between April 1998 and December 1999, and was appointed by the Financial Secretary of the Government of the Hong Kong Special Administrative Region as the first Chief Operating Officer of The Hong Kong Mortgage Corporation between February 1997 and April 1998. Mr. Sun was the managing director of ARCH Fixed Income Management Limited between March 1996 and February 1997, a senior managing director of Bear Stearns Asia Limited between October 1994 and February 1996, and executive director of GS (Asia) Securities Limited between July 1986 and September 1994.

YIN Mengbo*Independent Non-Executive Director*

Mr. Yin Mengbo has been an independent non-executive director of the Bank since July 2012. He also serves as a member of the remuneration committee of the Bank. Mr. Yin graduated from the department of finance of Southwestern University of Finance and Economics in 1982 and graduated from Southwestern University of Finance and Economics (西南財經大學) for postgraduate and PhD degree of economics, majoring in finance, from September 1996 to May 1999. Mr. Yin has been a lecturer of Southwestern University of Finance and Economics since July 1982, and currently holds a doctoral degree in economics. Mr. Yin has been the chairman of the Professor Committee of the School of Finance of Southwestern University of Finance and Economics since June 2013, the dean of the Research Institute of Southwestern University of Finance and Economics (西南財經大學研究生院院長) from November 2011 to June 2013, the head of the graduate department of Southwestern University of Finance and Economics (西南財經大學研究生部主任) from September 2007 to November 2011 and the dean of the School of Finance of Southwestern University of Finance and Economics between September 1997 and September 2007.

YUAN Zengting

Independent Non-Executive Director

Mr. Yuan Zengting has served as an independent non-executive Director of the Bank since November 2014. He is the chairman of the related party transaction supervision committee and a member of the strategic development committee, the risk management committee and sannong financial service committee of the Bank. Mr. Yuan obtained PhD degree of economics from Wuhan University Faculty of Economics, majoring in economics from 2001 to 2004. Mr. Yuan is currently the deputy director and associate research fellow of the Financial Laboratory of the Institute of Finance and Banking, Chinese Academy of Social Sciences, and a master tutor of MBA Center and Department of Finance, Chinese Academy of Social Sciences since October 2013. He once served as a deputy director of the Structured Finance Research Department of the Institute of Finance and Banking, Chinese Academy of Social Sciences, and deputy director of the Financial Product Center, Chinese Academy of Social Sciences from October 2009 to September 2013. He served as an assistant researcher at the Structured Finance Research Department of the Institute of Finance and Banking, Chinese Academy of Social Sciences from July 2005 to September 2009; from September 2006 to July 2008, he served as a postdoctoral researcher at Tehua Investment Holding Co., Ltd. (特華投資控股有限公司). Mr. Yuan served as a senior analyst at the Research Division of China Cheng Xin International Credit Rating Co. Ltd. (中誠信國際信用評級公司) from September 2004 to June 2005.

CAO Guohua

Independent Non-Executive Director

Mr. Cao Guohua has served as an independent non-executive Director of the Bank since November 2014. He is a chairman of the audit committee, a member of the nomination committee, the remuneration committee and sannong financial service committee of the Bank. Mr. Cao obtained a bachelor's degree in the Department of Mathematics, Anhui Normal University in July 1989. He obtained a master's degree in the Department of Mathematics, Sichuan University in July 1992 and obtained a PhD degree in the School of Economics and Business Management, Chongqing University in December 1999. Mr. Cao has been a professor and PhD tutor of the Department of Finance, School of Economics and Business Management, Chongqing University since September 2006 until now. Mr. Cao has served as an outside director of Chongqing Tourism Investment Group Co., Ltd. (重慶旅遊投資集團有限公司), a listed company of Shenzhen Stock Exchange (stock code: 000514), since June 2014, an independent director of Chongqing Yukaifa Co., Ltd. (重慶渝開發股份有限公司) since August 2012 and an independent director of Dongfeng Sci-Tech Group Co., Ltd. (東豐科技集團股份有限公司), a listed company of Shenzhen Stock Exchange and formerly known as Chengde Nanjiang Co., Ltd. (承德南江股份有限公司) (stock code: 200160), from April 2012 to June 2018. Mr. Cao served as an independent director of Chongqing Jingke Property Group Co., Ltd. (重慶金科地產集團股份有限公司), a listed company of Shenzhen Stock Exchange (stock code: 000656), from May 2015 to May 2017 and an independent director of Chongqing

Jian Feng Chemical Co., Ltd. (重慶建峰化工股份有限公司), a listed company of Shenzhen Stock Exchange (stock code: 000950), from January 2015 to September 2017. He once served as an independent director of Balance Automobile Insurance Co., Ltd. (天平汽車保險股份有限公司) from March 2010 to March 2013. Mr. Cao served as an independent director of Guizhou Bailing Group Pharmaceutical Co., Ltd. (貴州百靈企業集團製藥股份有限公司), a listed company of Shenzhen Stock Exchange (stock code: 002424), from December 2007 to December 2013. He once served as an associate professor of the Department of Finance, School of Economics and Business Management, Chongqing University from December 2000 to September 2006. From April 1993 to December 2000, he served as an assistant lecturer and lecturer of the School of Economics and Business Management, Chongqing University. From July 1992 to April 1993, he served as an assistant lecturer of the Department of Mathematics, Chongqing University.

SONG Qinghua

Independent Non-Executive Director

Mr. Song Qinghua has served as an independent non-executive director of the Bank since September 2017. He is the chairman of the remuneration committee, a member of the audit committee, the related party transaction supervision committee and the consumer rights protection committee of the Bank. Mr. Song graduated from Zhongnan University of Finance and Economics (majoring in finance) in June 1985, obtained a Master's Degree in economics from Zhongnan University of Finance and Economics in June 1988, a Doctor's Degree in economics from Zhongnan University of Finance and Economics in June 2000 and quit the Postdoctoral Research Station in applied economics from Renmin University of China in January 2003. Mr. Song has been teaching in Zhongnan University of Finance and Economics (which merged with Central South Institute of Law (中南政法學院) to form Zhongnan University of Economics and Law in May 2000) since July 1988, and is now an expert entitled to special government subsidies granted by the State Council, a professor and a tutor of doctorate candidate of School of Finance of Zhongnan University of Economics and Law. Mr. Song served as the president of School of Finance of Zhongnan University of Economics and Law from August 2008 to November 2016. Mr. Song was a visiting scholar of Saint Mary's University in Canada from June 2004 to December 2004, a visiting scholar of University of Rhode Island in the United States from August 2007 to August 2008 and a senior research scholar of University of Cincinnati in the United States from August 2018 to February 2019.

Mr. Song has served as the chairman of the board of supervisors of Zhongnan Jing Ying (Wuhan) Enterprise Management Consulting Co., Ltd. (中南菁英(武漢)企業管理諮詢有限公司) since May 2018. Mr. Song was an independent director of Wuhan Urban Commercial Bank (武漢市商業銀行) from February 2004 to April 2007, an independent director of Huangshi Commercial Bank (黃石市商業銀行) (later renamed Huangshi Bank (黃石銀行)) from April 2007 to April 2010, an independent director of Zhejiang Ningbo Yuyao Rural Cooperative Bank (浙江寧波餘姚農村合作銀行) from April 2011 to April 2014, an external supervisor of Hankou Bank Co., Ltd. (漢口銀行股份有限公司) from July 2011 to October 2015, an independent director of Hubei Huanggang Rural Commercial Bank (湖北黃岡農村商業銀行) from September 2014 to October 2015, an independent director of Hubei Financial Leasing Co., Ltd. (湖北金融租賃股份有限公司) from June 2015 to October 2015, and an independent director of Wuhan Keqian Biological Co., Ltd. (武漢科前生物股份有限公司) from September 2014 to October 2015.

ZHANG Qiaoyun

Independent Non-Executive Director

Mr. Zhang Qiaoyun has served as an independent non-executive director of the Bank since December 2018. He is the chairman of the nomination committee, a member of the strategic development committee, the audit committee and the consumer rights protection committee of the Bank. Mr. Zhang was admitted to the Department of Mathematics of Yibin Normal College in September 1980. He was admitted to the Finance Department of Southwestern University of Finance and Economics in 1991 to pursue a master's degree in currency banking, completed a doctoral degree at the School of Finance, Southwestern University of Finance and Economics from 1999 to 2002. Mr. Zhang is concurrently a member of the Chengdu Financial Center Construction Expert Committee, a deputy director committee of Financial Cooperation Group of Higher Financial & Economic Education Branch of China Association of Higher Education and a committee member of the National Financial Professional Degree Steering Committee. Mr. Zhang served as an independent director of Luzhou Laojiao Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000568) from July 2013 to November 2015. He served as an independent director of Chengdu Xingrong Investment Co., Ltd. (a company listed on the Shenzhen Stock Exchange and currently known as Chengdu Xingrong Environmental Co., Ltd., stock code: 000598) from October 2010 to March 2015. He served as an independent director of Guangxi Beibu Gulf Bank from January 2015 to November 2015. Mr. Zhang has served as a professor and doctoral advisor in School of Finance of Southwestern University of Finance and Economics since January 2017. Mr. Zhang served as the Executive Dean of the School of Finance of Southwestern University of Finance and Economics from May 2007 to January 2017. He served as the deputy director and director of the Graduate School of Southwestern University of Finance and Economics from October 2000 to May 2007, during which he served as a visiting scholar of University of California, San Diego from December 2006 to May 2007. He served as a teacher in School of Finance of Southwestern University of Finance and Economics from July 1994 to October 2000, during which he served as a visiting scholar of Duquesne University in the United States from November 1998 to May 1999. He served as a teacher in Daguang Vocational High School in Nanxi County, Sichuan Province from July 1983 to September 1991.

2. Supervisors of the Bank

NI Yuemin

Chairwoman of the board of supervisors, Employee Representative Supervisor

Ms. Ni Yuemin has been the Chairwoman of the supervisory board of the Bank since February 2015. Ms. Ni served as a vice president and a member of the Party Committee of Bank of Chongqing Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 1963) from October 2009 to February 2015, and an executive director of the company from November 2012 to February 2015. Ms. Ni served as director of Property Management Division and director of Assessment and Allocation Division of Chongqing State-owned Assets Supervision and Administration Commission from June 2005 to October 2009 and from October 2003 to June 2005, respectively. During the period from September 2000 to October 2003, from May 1995 to September 2000, from May 1992 to May 1995, from March 1989 to May 1992 and from July 1987 to March 1989, Ms. Ni served as deputy director of Enterprise Division One, principal staff member, deputy staff member, staff member of Enterprise Finance Division One and a member of Plant-Residing Group of Shapingba District of Chongqing Municipal Finance Bureau, respectively. Ms. Ni obtained a bachelor's degree in economics (majoring in accounting and statistics in Faculty of Economics and Management) from Yuzhou University (now Chongqing Technology and Business University) in July 1987, and obtained a Master's degree of Business Administration for senior administrative staff from Chongqing University in December 2011. Ms. Ni is a non-practicing member of the Chinese Institute of Certified Public Accountants and a senior accountant.

ZENG Jianwu

Shareholder Representative Supervisor

Mr. Zeng Jianwu has been a shareholder representative supervisor of the Bank since June 2008. He is also a member of the audit committee under the board of supervisors of the Bank. Mr. Zeng has been serving as deputy general manager of Xiamen Gaoxinyu Equity Investment Co., Ltd. (formerly Xiamen Laierfu Trading Co., Ltd.) since May 2001. He has served as the general manager of Xiamen Septwolves Wealth Management Co., Ltd. (廈門七匹狼財富管理有限公司) since June 2015 and served as the legal representative and executive director of Xiamen Septwolves Wealth Management Co., Ltd. since March 2018. He has served as the legal representative, the executive director and general manager of Dulong Deqing Zhuozhuo Investment Management Co., Ltd. since March 2016. Since April 2017, he has been a director of Huixin Fu (Hong Kong) Investment Co., Ltd. Mr. Zeng has obtained a master degree of Science from Xiamen University in July 2000 and a PhD in Applied Economics (Financial Engineering) from Xiamen University in June 2008.

ZUO Ruilan

Shareholder Representative Supervisor

Ms. Zuo Ruilan has been a shareholder representative supervisor of the Bank since June 2008. She is also a member of the nomination committee under the board of supervisors of the Bank. Ms. Zuo has been the executive director of Sichuan Huayuyeyu Real Estate Development Co., Ltd. (四川華宇業昊房地產開發有限公司) since February 2014 and Ms. Zuo served as chairman of Chongqing Huayu Property Services Co., Ltd. (重慶華宇物業服務有限公司) and chairman of Chongqing Yerui Real Estate Development Co., Ltd. (重慶業瑞房地產開發有限公司). Ms. Zuo worked at the Chongqing Jiangjin Branch office of the Construction Bank of China (中國建設銀行重慶江津支行辦公室) from February 1998 to July 2000 and worked at the Saving Agency of Chongqing Jiangjin Branch of the Construction Bank of China (中國建設銀行重慶江津支行東門儲蓄所) from July 1995 to February 1998. Ms. Zuo graduated in December 1999 from Southwest University majoring in Economics Management.

HU Shuchun

External Supervisor

Mr. Hu Shuchun has served as an external supervisor of the Bank since October 2014. He is also the chairman of the internal control review committee under the board of supervisors of the Bank. Mr. Hu has served as the executive director of Chongqing Bestone Law Firm (重慶百事得律師事務所) since January 2019. Mr. Hu served as the director of Chongqing Da Neng Law Firm (重慶達能律師事務所) from March 2013 to January 2019. He served as an attorney and partner of Chongqing Zhi Yuan Law Firm (重慶智圓律師事務所) from July 2003 to March 2013. He served as an attorney of Chongqing Jing Bo Law Firm from December 2002 to July 2003. He served as an attorney of Chongqing Jing Sheng Law Firm (重慶靜升律師事務所) from October 2001 to December 2002. He served as a procurator of the People's Procuratorate of Chongqing from July 1998 to October 2001. From September 1995 to July 1998, Mr. Hu studied at the graduate faculty of Southwest University of Political Science & Law and obtained a master's degree in economic law. He served as a law teacher at the Party School of the CPC Hegang Municipal Committee from July 1992 to September 1995. He is currently a CPC member, a holder of master's degree in law and an arbitrator of the Chongqing Arbitration Commission.

PAN Like*External Supervisor*

Mr. Pan Like has served as an external supervisor of the Bank since October 2014. He is also the chairman of the audit committee under the board of supervisors of the Bank. Mr. Pan has served as a salaried partner, partner and senior partner of Pan-China Certified Public Accountants Co., Ltd. (天健會計師事務所) since December 2011. He served as a salaried partner of Pan-China (Zhengxin) Certified Public Accountants Co., Ltd. (天健正信會計師事務所) from December 2009 to December 2011. He served as a salaried partner of Pan-China (Guanghua) Certified Public Accountants Co., Ltd. (天健光華會計師事務所) from December 2008 to December 2009. Mr. Pan served as a department manager and director of office and senior manager of Pan-China (Chongqing) Certified Public Accountants Co., Ltd. (重慶天健會計師事務所) from August 2000 to December 2008, during which he enrolled in graduate courses at Shanghai University of Finance and Economics majoring in accounting as a part-time student from September 1999 to July 2001 and served as a project manager, a deputy director of the Office of Director and a deputy department manager of Chongqing Huayuan Certified Public Accountants Co., Ltd. (重慶華源會計師事務所) from December 1998 to August 2000. He once served as an assistant of audit services department of Chongqing Certified Public Accountants Co., Ltd. (重慶會計師事務所) from June 1995 to December 1998. Mr. Pan is currently a CPC member, a postgraduate, a senior accountant, a Chinese certified public accountant, a public valuer, a certified real estate appraiser and a land valuer.

WANG Hong*External Supervisor*

Mr. Wang Hong has served as an external supervisor of the Bank since October 2014. He is also the chairman of the nomination committee of the board of supervisors of the Bank. Mr. Wang has served as a professor and PhD tutor of the Civil and Commercial Law School, Southwest University of Political Science & Law since September 2009. He serves as an independent director of PKU HealthCare Corp., Ltd., a listed company of Shenzhen Stock Exchange (stock code: 000788) since May 2015, an independent director of Chongqing Construction Investment (Group) Co., Ltd. since 2015, an independent director of Guizhou Bailing Group Pharmaceutical Co., Ltd. (貴州百靈企業集團製藥股份有限公司) since December 2013, an independent director of Chongqing ZhengChuan Medicine Packaging Materials Co., Ltd. (重慶正川醫藥包裝材料股份有限公司) since September 2013. From September 2005 to September 2009, Mr. Wang served as a professor and master tutor of the Civil and Commercial Law School, Southwest University of Political Science & Law. From September 2000 to September 2005, he served as an associate professor and master tutor of the Civil and Commercial Law School, Southwest University of Political Science & Law, during which he studied at the graduate faculty of the Civil and Commercial Law School, Southwest University of Political Science & Law from September 2001 to June 2005 and obtained a doctorate degree. From April 1991 to September 2000, he served as a teacher of the Division of Civil Law, Department of Law, Southwest University of Political Science & Law. Mr. Wang is currently a member of China Democratic National Construction Association, a doctor of Civil Law and Commercial Law and an arbitrator of the China International Economic and Trade Arbitration Commission and the Arbitration Commissions of Chongqing, Chengdu, Nanning and Hohhot.

ZHENG Yi

Employee Representative Supervisor

Mr. Zheng Yi has been an employee representative supervisor of the Bank since November 2011. He is also a member of the audit committee and the Internal Control Review Committee under the board of supervisors of the Bank. Mr. Zheng currently serves as the General Manager of Credit Approval Department of the Bank. Mr. Zheng has been the General Manager of Credit Management Department of the Bank from April 2011 to June 2016. Mr. Zheng had served as the general manager of Operation Management Department of the Chongqing Rural Credit Cooperative Union from July 2007 to August 2008. Mr. Zheng had served as the vice general manager of Operation Management Department of the Chongqing Rural Credit Cooperative Union from January 2007 to July 2007. Mr. Zheng had been the vice general manager of Risk Management Department of the Chongqing Rural Credit Cooperative Union from December 2006 to January 2007. Mr. Zheng had served as the deputy director of the Credit Management Division of the Chongqing Rural Credit Cooperative Union from June 2004 to December 2006. Mr. Zheng had been engaged in the credit management work of Chongqing Rural Credit Cooperative Union from May 2000 to June 2004. From August 1998 to May 2000, he worked at the Leading Group for Reform of Chongqing Rural Financial System. From April 1984 to August 1998, he engaged in credit work at Chongqing Hechuan Rural Credit Cooperative Union (重慶市合川農村信用聯社). Mr. Zheng graduated from the Correspondence College of Chongqing Municipal Party Committee in December 1999, majoring in Economics and Management, and is currently an economist.

ZHU Yuzhou

Employee Representative Supervisor

Mr. Zhu Yuzhou has been an employee representative supervisor of the Bank since November 2011. He is also a member of the Due Diligence Supervisory Committee and the Internal Control Review Committee under the board of supervisors of the Bank. Mr. Zhu currently serves as the Director of Disciplinary Inspection and Supervision Department of the Bank. Mr. Zhu has worked as the Director of Disciplinary Inspection and Supervision Department of the Bank since April 2017. He worked as the Director of Security Monitoring Department of the Bank from October 2011 to April 2017, the General Manager of Small Enterprise Business Department of the Bank from April 2011 to October 2011, the General Manager of Small Enterprises Credit Department of the Bank from January 2010 to April 2011 and the General Manager of Real Estate Business Department of the Bank from August 2008 to January 2010. Mr. Zhu was in charge of work at Chongqing Fuling District Credit Union (重慶涪陵區信用聯社) from June 2002 to July 2002, and was in charge of work and served as the secretary to the Party committee of Chongqing Fuling District Credit Union from July 2002 to December 2002. He served as the chairman and the secretary to the Party committee of Chongqing Fuling District Credit Union from December 2002 to August 2008. Mr. Zhu successively served as the director, the chairman and the secretary to the Party committee of Fengdu County Rural Credit Cooperative Union (豐都縣農村信用合作聯社) from June 1998 to June 2002. Mr. Zhu successively served as the accountant, the auditor, the head of Credit Group and the deputy director and director of Business Department of Fuling Rural Credit Cooperative Union (涪陵農村信用合作 聯社) from July 1983 to June 1998. Mr. Zhu graduated from College of Chongqing Municipal Party Committee in June 2001, majoring in Regional Economics, and is currently an economist.

3. Senior Management of the Bank

XIE Wenhui

Deputy Secretary to the Party Committee, President, Executive Director

Please refer to the section headed “Directors, Supervisors and Senior Management — 1. Directors of the Bank” of this annual report for biographic details of Mr. Xie Wenhui.

WANG Min

Member of the Party Committee, Vice President

Since July 2015, Mr. Wang Min has served as member of the party committee and Vice President of the Bank. Before joining the Bank, Mr. Wang served as member of the Party Committee and deputy president of Bank of Chongqing Co., Ltd. (Stock code: 1963) from October 2010 to July 2015; served as staff in the Chongqing Branch of the National Development Bank and member of the Party Committee and deputy president of the Bank of Chongqing from July 2006 to October 2010; held a number of positions in the Chongqing Branch of the National Development Bank from July 2000 to July 2006, including director of the second Customer Department, director of Audit Supervision Department, director of Discipline Inspection Office and director of Audit; held a number of positions in the National Development Bank from December 1994 to July 2000, including deputy director of the Second Credit Audit Department of the Audit Council and deputy director of the Second Credit Audit Department and auditor at section level in the General Office of the Audit Bureau; served in the National Transportation Investment Office from June 1988 to December 1994; served in the general office of the State Economic Commission from July 1986 to June 1988. Mr. Wang obtained a bachelor's degree in history of the Archival Science in Renmin University of China in July 1986 and obtained an EMBA degree from Sichuan University in June 2013, now known as Librarian.

YUAN Xiaobo

Deputy Secretary to the Party Committee, Chairman of the Trade Union

Mr. Yuan Xiaobo has been a deputy secretary to the party committee of the Bank since December 2008. He was the secretary to the Discipline Committee of the Bank from March 2010 to October 2018. He has been the chairman of the trade union of the Bank since March 2010. Prior to joining the Bank, Mr. Yuan was the division director (training division, human resources division) of Entrepreneur administration Division of Chongqing Stateowned Assets Supervision from October 2003 and December 2008. Mr. Yuan assumed a number of positions in Enterprise Executive Committee of Chongqing Municipal Party Committee from June 2000 to October 2003, including deputy division director, research assistant and principal staff member. He served as principal staff member of the Cadres Division of the Working Committee of Industrial Transport of Chongqing Municipal Party Committee from June 1998 to June 2000. Mr. Yuan worked for the Chongqing Electronics Industry Authority from March 1992 to June 1998 as a staff member and deputy principal staff member of Personnel and Education Division. From October 1997 to June 1998, he was seconded to the Appointment and Removal Office of Chongqing Personnel Bureau. Mr. Yuan worked at the State-owned 907 Factory from August 1984 to March 1992. Mr. Yuan obtained a Master's degree in project management from Chongqing University in December 2008 and is currently a senior administration engineer and an economist.

DONG Lu

Member of the Party Committee, Vice President

Ms. Dong Lu has been the member of the party committee and the Vice President of the Bank since May 2011. Ms. Dong was the general manager of the Treasury Operation Department at headquarters of the Bank from August 2008 to May 2011 and assumed a number of positions in Chongqing Rural Credit Cooperative Union from October 2004 to August 2008 including general manager and deputy general manager of the Business Department and deputy head of the Financial Planning Division. Prior to joining the Bank, Ms. Dong worked in the Financial Planning Department at Chongqing Branch of the China Everbright Bank from March 2002 to October 2004, business manager of the Customer Manager Department at Yuzhong Sub-branch of Chongqing Branch of China Everbright Bank from April 2001 to March 2002 and worked in Business Department at Yuzhong Sub-branch of Chongqing Branch of China Everbright Bank from June 1997 to April 2001. Ms. Dong obtained a master's degree in Project Management from Chongqing University in December 2011 and is currently an economist.

XIANG Zhaochang

Member of the Party Committee, Secretary to the Disciplinary Committee

Mr. Xiang Zhaochang has been the member of the party committee and secretary to the disciplinary committee of the Bank since October 2018. Prior to joining the Bank, Mr. Xiang was the director of the Second Discipline Inspection and Supervision Office of Chongqing Discipline Commission and Municipal Supervision Commission (at the deputy director level) from March 2018 to October 2018. From January 2018 to March 2018, he was a member of the Party Group of the Second Branch of Chongqing People's Procuratorate. From July 2017 to January 2018, he was a member of the Party Group of the Second Branch of Chongqing People's Procuratorate and director of the Bureau of Duty Crime Investigation. From April 2015 to July 2017, he was a member of the Party Group of the Fourth Branch of Chongqing People's Procuratorate and the director of the Bureau of Duty Crime Investigation. From August 1998 to April 2015, Mr. Xiang served in many positions in the Second Branch of Chongqing People's Procuratorate, including the Director of the Comprehensive Guidance Department, the Political Committee of the Bureau of Duty Crime Investigation, the Deputy Director of the Bureau of Duty Crime Investigation, the Director of the Investigation Department, the Deputy Director of the Prevention Department and the Deputy Director of the Anti-Corruption Bureau, etc. From May 1993 to August 1998, he served as an assistant procurator at the level of official department, procurator and Deputy Department of the Anti-Corruption Bureau of the People's Procuratorate of Wanxian City, Sichuan Province. From August 1984 to May 1993, he held several positions in Wanxian Branch of Sichuan Provincial People's Procuratorate, including assistant procurator of corruption and bribery department, Secretary of economic procuratorate department and clerk of economic law and discipline procuratorate department. Mr. Xiang graduated from the Correspondence College of Chongqing Municipal Party Committee in December 2002, majoring in Law, and is currently level 2 senior prosecutor.

SHU Jing

Member of the Party Committee, Vice President

Ms. Shu Jing has served as member of the party committee and vice president of the Bank since October 2015. Ms. Shu held a number of positions in the Bank from August 2008 to October 2015, including general manager of Credit Approval Department, general manager of Service Department of the company, general manager and deputy general manager in the Business Department. Before joining the Bank, Ms. Shu served as assistant president (in charge of work), assistant president and deputy president of High Technology Development Zone Branch of Chongqing Branch of China Everbright Bank from August 2005 to August 2008; held multiple positions in the Beibei Branch of Chongqing Branch of China Construction Bank from January 1998 to August 2005, including manager and deputy general manager (conducting work) in the Business Department, deputy director of Huaguang Branch and secretary of the League of Branch, secretary of the League of Branch and audit supervisor of Finance Department, served as accounting of Business Department and accounting supervisor in Beibei Branch of Chongqing Branch of China Construction Bank from November 1992 to January 1998. Ms. Shu graduated from Economics and Management Major of the Correspondence School of the CPC Chongqing Municipal Party School in December 1997 and now is an economist.

LIU Jiangqiao

Member of the Party Committee, Vice President, Secretary to the Board

Since October 2015, Mr. Liu Jiangqiao has served as member of the party committee and vice president of the Bank. He served as the Director of CQRC Financial Leasing Co., Ltd. from May to July 2016 and has served as the Secretary to the Board of the Bank since September 2016. Mr. Liu held multiple positions in the Bank from September 2008 to October 2015, including general manager of Personal Business Department, general manager of Three Rural Business Management Department, general manager of Personal Credit Department and general manager of Retail Channels Department, deputy general manager of Small Business Loan Center (conducting work) and deputy general manager of Agriculture and Personal Business Department. Before joining the Bank, Mr. Liu served as deputy president and member of the Party Committee of Wanzhou Branch of Chongqing of China Construction Bank from December 2005 to September 2008; served as president assistant in the Banan Branch of Chongqing Branch of China Construction Bank from December 2003 to December 2005; served as accounting manager and deputy president in the Peace Plaza Branch of Chongqing Wanzhou Branch of China Construction Bank from May 2001 to December 2003; served as vice president and president assistant, chief of Business Department of Longbao Branch in the Longbao District Branch of Chongqing Wanxian Branch of China Construction Bank from February 1997 to May 2001, served as deputy and clerk sector chief of Business Department in the Longbao District Branch of Sichuan Province Wanxian Branch of China People's Construction Bank from July 1992 to February 1997. Mr. Liu obtained a bachelor's degree in Economics of Investment Economics and Management from Jiangxi College of Finance and Economics. Mr. Liu graduated from the Business Management Major in the Master of Business Administration College in Chongqing in June 2002 and now is an economist.

ZHANG Peizong

Member of the Party Committee, Vice President, Executive Director

Please refer to the section headed “Directors, Supervisors and Senior Management — 1. Directors of the Bank” of this annual report for biographic details of Mr. Zhang Peizong.

GAO Song

Member of the Party Committee, Vice President

Mr. Gao Song served as the vice president and member of the party committee of the Bank since September 2016. Mr. Gao served various positions in the Bank from May 2010 to September 2016, including general manager of the Human Resources Department, secretary to the Party committee and person in charge of Changshou Branch, general manager of the Channel Management Department and deputy general manager of the Asset Preservation Department. Prior to joining the Bank, Mr. Gao served as deputy president of Xinpaifang Branch in Chongqing Branch of Bank of Communications from April 2009 to May 2010 and assumed various positions in Chongqing Branch of Bank of Communications from March 2002 to April 2009, including legal compliance management officer of legal compliance department, assets preservation officer of assets preservation department and clerk of risk management division. He worked at the Shapingba Branch in Chongqing Branch of Bank of Communications from July 2001 to March 2002. Mr. Gao obtained a Bachelor Degree in law from Southwest University of Political Science & Law in July 2001 and obtained a Master's Degree in law from Southwest University of Political Science & Law in January 2005.

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Luo Yuxing became a non-executive director of the third session of the Board of Directors upon approval by the Banking Regulatory Commission Chongqing Bureau of the China Banking and Insurance Regulatory Commission on 2 January 2018. Mr. Zhang Peizong became an executive director of the fourth session of the Board of Directors upon approval by the CBIRC Chongqing Office on 25 December 2018. Mr. Zhang Qiaoyun became an independent non-executive director of the fourth session of the Board of Directors upon approval by the CBIRC Chongqing Office on 25 December 2018. Mr. Sun Lida, whose term of office expired, ceased to be a non-executive director of the Bank after the election of the Board of Directors on 21 September 2018. Mr. He Zhiming resigned as non-executive director of the Bank on 9 October 2018 due to job changes.

Mr. Yuan Xiaobo ceased to serve as the secretary to the disciplinary committee in October 2018. Mr. Xiang Zhaochang became a member of the party committee and the secretary to the disciplinary committee since October 2018.

Save as disclosed above, there was no change in the directors, supervisors and senior management of the Bank during the Reporting Period.

REMUNERATION FOR DIRECTORS OF THE BANK IN 2018

Name	Position	Paid remuneration (before tax) (1) ^{Note}	Social insurance, housing funds, the portion of supplementary health insurance contributed by the Bank (2)	Part-time fees (3)	Total remuneration before tax in 2018 (4)=(1)+(2)+(3)
Liu Jianzhong	Chairman of the Board of Directors, Executive Director	703	93	—	796
Xie Wenhui	President, Executive Director	815	93	—	908
Zhang Peizong	Vice President, Executive Director	264	93	—	357
Sun Lida	Non-executive Director	—	—	68	68
He Zhiming	Non-executive Director	—	—	75	75
Duan Xiaohua	Non-executive Director	—	—	90	90
Wen Honghai	Non-executive Director	—	—	90	90
Luo Yuxing	Non-executive Director	—	—	90	90
Chen Xiaoyan	Non-executive Director	—	—	90	90
Sun Leland Li Hsun	Independent Non- executive Director	—	—	180	180
Yin Mengbo	Independent Non- executive Director	—	—	180	180
Cao Guohua	Independent Non- executive Director	—	—	180	180
Yuan Zengting	Independent Non- executive Director	—	—	180	180
Zhang Qiaoyun	Independent Non- executive Director	—	—	—	—
Song Qinghua	Independent Non- executive Director	—	—	180	180

REMUNERATION FOR SUPERVISORS AND SENIOR MANAGEMENT

For the year ended 31 December 2018, the total remuneration before tax paid by the Bank to its supervisors and senior management amounted to RMB3.154 million and RMB3.661 million, respectively, details of which are set out below:

Remuneration for Supervisors of the Bank in 2018

Unit: RMB'000

Name	Position	Paid remuneration (before tax) (1) ^{Note}	Social insurance, Housing funds, the portion of supplementary health insurance contributed by the Bank (2)	Part-time fees (3)	Total remuneration before tax in 2018 (4)=(1)+(2)+(3)
Ni Yuemin	Chairwoman of the Board of Supervisors	367	85	–	452
Zeng Jianwu	Shareholder Representative Supervisor	–	–	75	75
Zuo Ruilan	Shareholder Representative Supervisor	–	–	75	75
Wang Hong	External Supervisor	–	–	120	120
Pan Like	External Supervisor	–	–	120	120
Hu Shuchun	External Supervisor	–	–	120	120
Zheng Yi	Employee Representative Supervisor	1,067	85	–	1,152
Zhu Yuzhou	Employee Representative Supervisor	955	85	–	1,040

Remuneration for senior management was within following ranges:

	Number of individuals Year ended 31 December 2018
RMB nil – RMB1,000,000	7
RMB1,000,001 – RMB1,500,000	–
RMB1,500,001 – RMB2,000,000	–
RMB2,000,001 – RMB2,500,000	–
RMB2,500,001 – RMB3,000,000	–
RMB3,000,001 – RMB3,500,000	–
RMB3,500,001 – RMB4,000,000	–

Note: Remuneration paid refers to the remuneration of Directors, Supervisors and senior management approved by the regulatory authority to be paid for the year and deferred for the previous years in accordance with the internal and external regulations.

Report of The Board of Directors

The Board of Directors is pleased to present its report together with the audited financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Group is principally engaged in a range of banking services and related financial services in China.

PROFIT AND DIVIDENDS

The income of the Group for the year ended 31 December 2018 and the Group's financial position as at that date are set out in the section entitled "Financial Statements" of this annual report.

Pursuant to the resolution passed at the annual general meeting of 2017 on 27 April 2018, the Bank had distributed cash dividends in an aggregate amount of RMB2,000 million (tax inclusive) for 2017 to all the shareholders at a par value of RMB0.20 per share (tax inclusive). Such dividends were distributed to holders of domestic shares and holders of H shares whose names appeared on the register of members on 9 May 2018. The above dividends were denominated in RMB. Dividends payable to holders of domestic shares were paid in RMB, whereas dividends payable to holders of H shares were paid in HKD. The exchange rate for dividends payable in HKD adopted was the average of the central parity rates of RMB to HKD of the five business days preceding the date of declaration of such dividends at the 2017 annual general meeting of the Bank (27 April 2018, including the date thereof) as announced by the Central Bank. The above mentioned dividends were distributed on 22 June 2018.

The Board of Directors recommended a distribution of cash dividends in an aggregate amount of RMB2,000 million (tax inclusive) for 2018 to all the Shareholders at a par value of RMB0.20 per share (tax inclusive). The dividend distribution plan will be submitted to the annual general meeting of 2018 for consideration and approval. If such proposal obtains approval from the annual general meeting of 2018, the dividend will be distributed on 11 June 2019 to holders of domestic shares and holders of H shares whose names appear on the register of members on 8 May 2018. Such proposed dividends will be denominated in RMB. Dividends payable to holders of domestic shares shall be paid in RMB, whereas dividends payable to holders of H shares shall be paid in HKD. The applicable exchange rate for dividends payable in HKD shall be the average of the central parity rates of RMB to HKD of the five business days preceding the date of declaration of such dividends at the 2018 annual general meeting of the Bank (26 April 2019, including the date thereof) as announced by the Central Bank.

The amounts of cash dividends and ratios of cash dividends to profit for the year of the Bank in the previous three years are as follows:

(RMB, in million)	2017	2016	2015
Cash dividends	2,000	1,860	1,860
As a percentage of profit for the year	<u>22.20%</u>	<u>23.25%</u>	<u>25.73%</u>

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Bank for the year 2018 will be held on Friday, 26 April 2019. In order to determine the holders of shares who are eligible to attend and vote at the annual general meeting, the register of members of the Bank will be closed from Wednesday, 27 March 2019 to Friday, 26 April 2019, both days inclusive, during which period no transfer of shares will be registered. For holders of H shares of the Bank who wish to attend and vote at the annual general meeting for 2018, all transfer documents and the relevant share certificates must be lodged with the Bank's H Share Registrar, Computershare Hong Kong Investor Services Limited at 17M floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 26 March 2019.

RESERVES

Please refer to the "Consolidated Statement of Changes in Equity" for details of the movements in the reserves available for distribution to shareholders of the Group for the year ended 31 December 2018.

SUMMARY OF FINANCIAL INFORMATION

Please refer to the "Financial Summary" of this annual report for the summary of the operating results, assets and liabilities of the Group for the two years ended 31 December 2018.

DONATIONS

During the year ended 31 December 2018, the Group made charitable and other donations amounting to approximately RMB12,500,000.

PROPERTY AND EQUIPMENT

Please refer to Note 24 "Property and Equipment" to the section entitled "Financial Statements" of this annual report for details of movements in the property and equipment of the Group during the year ended 31 December 2018.

RETIREMENT BENEFITS

Please refer to Note 33 “Accrued Staff Costs” to the section entitled “Financial Statements” of this annual report for details of the retirement benefits provided to employees of the Group.

ULTIMATE PARENT COMPANY AND SUBSIDIARIES

Please refer to “Major Shareholders of the Bank” in the section entitled “Changes in Share Capital and Particulars of Shareholders” and Note 23 “Investment in Subsidiaries” to the section entitled “Financial Statements” of this annual report for details of the Bank’s ultimate parent company and subsidiaries as at 31 December 2018.

PURCHASE, REPURCHASE, SALE AND REDEMPTION OF SHARES OF THE BANK

Neither the Bank nor its subsidiaries had purchased, repurchased, sold or redeemed any shares of the Bank during the Reporting Period.

PRE-EMPTIVE RIGHTS

Neither the Articles of Association nor the relevant PRC laws have such provisions under which the Bank’s shareholders have pre-emptive rights. The Articles of Association provides that if the Bank wishes to increase its capital, it may issue new shares to non-specified investors, place or allot new shares to existing shareholders, issue new shares to targeted investors, convert new shares from capital reserve, or through other means as permitted by laws or administrative regulations.

MAJOR CUSTOMERS AND SUPPLIERS

In 2018, the aggregate amount of interest income and other operating income generated from the five largest customers of the Bank represented an amount not exceeding 30% of the total interest income and other operating income of the Bank.

In view of the business nature of the Bank, the Bank did not have major suppliers.

SHARE CAPITAL

Please refer to Note 37 “Share Capital” to the “Financial Statements” of this annual report for details of the movement in share capital of the Bank during the Reporting Period.

TOP TEN SHAREHOLDERS AND THEIR SHAREHOLDINGS

The top ten shareholders of the Bank and their respective shareholdings at the end of 2018 are stated in “Changes in Share Capital and Particulars of Shareholders” of this annual report.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The directors of the Bank during the year and up to the date of this report are:

As of the end of the Reporting Period, the Board of Directors comprised 13 directors in total, including three executive directors, namely Mr. Liu Jianzhong (chairman), Mr. Xie Wenhui (president) and Mr. Zhang Peizong (vice president); four non-executive directors, namely Ms. Chen Xiaoyan, Mr. Duan Xiaohua, Mr. Luo Yuxing and Mr. Wen Honghai; six independent non-executive directors, namely Mr. Sun Leland Li Hsun, Mr. Yin Mengbo, Mr. Yuan Zengting, Mr. Cao Guohua, Mr. Song Qinghua and Mr. Zhang Qiaoyun.

During the Reporting Period, Mr. Sun Lida ceased to be a non-executive director of the Bank after the election of the Board of Directors on 21 September 2018. Mr. He Zhiming resigned as non-executive director of the Bank on 9 October 2018.

Please refer to the “Profiles of Directors, Supervisors and Senior Management” of this annual report for details of directors, supervisors and senior management of the Bank.

CONFIRMATION OF INDEPENDENCE BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Bank has received from each of the independent non-executive directors an annual confirmation of his independence. The Bank considers that all of the independent non-executive directors are in compliance with the independence guidelines as set out in Rule 3.13 of the Hong Kong Listing Rules, and are independent accordingly.

DIRECTORS', SUPERVISORS' AND THE CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE BANK

As at 31 December 2018, the interests of the directors, supervisors and the chief executive of the Bank and their associates in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance of Hong Kong) as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance or as otherwise notified to the Bank and Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules were as follows:

Domestic Shares

Unit: share, %

Name	Capacity	Number of domestic shares held (long position)	% of the total issued domestic shares of the Bank	% of the total issued share capital of the Bank
Supervisors				
Zuo Ruilan	Beneficial Owner	11,900	0.00016	0.00012
Zhu Yuzhou	Beneficial Owner	37,600	0.00050	0.00038

Other than as disclosed above, none of the directors, supervisors or the chief executive of the Bank or their associates had any interests or short positions in any shares, underlying shares or debentures of the Bank or any of its associated corporations as at 31 December 2018.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS

There are no relationships among the directors, supervisors and senior management of the Bank, including financial, business, family or other material relationships.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the Reporting Period was the Bank, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors and supervisors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

DIRECTORS' AND SUPERVISORS' INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save for those continuing connected transactions which can be exempted from the reporting, annual review, announcement and independent shareholder's approval requirements under Chapter 14A of the Hong Kong Listing Rules, no director, supervisor or entity which is related to such persons of the Bank had a material interest, whether directly or indirectly, in material transactions, arrangements and contracts in relation to the Group's businesses to which the Bank, its holding company, any of its subsidiaries or fellow subsidiaries was a party at any time during the year (excluding service contracts).

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

None of the directors and supervisors of the Bank entered into service contracts with the Bank that cannot be terminated by the Bank or any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACTS

For the year ended 31 December 2018, there was no management and administrative contract in respect of all or any of the principal activities of the Bank being entered into by or existed in the Bank.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

None of the directors and supervisors of the Bank had any interests in businesses that constitute or may compete, directly or indirectly, with the business of the Bank.

SUBSTANTIAL SHAREHOLDERS

To the knowledge of the Bank, as at 31 December 2018, the interests and short positions of substantial shareholders (within the meaning of the Securities and Futures Ordinance), other than directors and supervisors, in the shares and underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance were as follows:

Report of The Board of Directors

Domestic Shares

Unit: share, %

Name of shareholder	Capacity	Number of domestic shares held (long position)	% of the total issued domestic share capital of the Bank	% of the total share capital of the Bank
Chongqing Yufu Assets Management Group Company Limited (重慶渝富資產經營管理集團有限公司)	Beneficial Owner	998,000,000	13.33	9.98
Chongqing City Construction Investment (Group) Company Limited (重慶市城市建設投資(集團)有限公司)	Beneficial Owner	787,087,430	10.51	7.87
Chongqing Transport and Travel Investment Group Company Limited (重慶交通旅遊投資集團有限公司)	Beneficial Owner	589,084,181	7.87	5.89
Loncin Holding Co., Ltd. (隆鑫控股有限公司)	Beneficial Owner	570,000,000	7.61	5.70
Chongqing Casin Group Co., Ltd. (重慶財信企業集團有限公司)	Beneficial Owner	443,100,000	5.92	4.43
Beijing Jiuding Real Estate Co., Ltd. (北京九鼎房地產開發有限責任公司)	Beneficial Owner	300,000,000	4.01	3.00
Xiamen Gaoxinhong Equity Investment Co., Ltd. (廈門市高鑫泓股權投資有限公司)	Beneficial Owner	200,000,000	2.67	2.00
Chongqing Yerui Property Development Co., Ltd. (重慶業瑞房地產開發有限公司)	Beneficial Owner	150,000,000	2.00	1.50

H Shares

Name of shareholder	Capacity	Number of H shares held ⁽³⁾	% of the total issued domestic share capital of the Bank	% of the total share capital of the Bank
BlackRock, Inc. ⁽¹⁾	Interest of Controlled Corporations	347,893,976 (L)	13.84%	3.48%
		5,182,000 (S)	0.21%	0.05%
BlackRock Global Funds	Beneficial Owner	175,440,000 (L)	6.98%	1.75%
Citigroup Inc.	Interest of Controlled Corporations/Approved lending agent	161,598,297 (L)	6.43%	1.62%
	Interest of Controlled Corporations	7,721,479 (S)	0.31%	0.08%
	Approved Lending Agent	153,112,570 (P)	6.09%	1.53%
Guo Guangchang ⁽²⁾	Interest of Controlled Corporations	176,048,000 (L)	7.00%	1.76%
Fosun International Holdings Ltd. ⁽²⁾	Interest of Controlled Corporations	176,048,000 (L)	7.00%	1.76%
Fosun Holdings Limited ⁽²⁾	Interest of Controlled Corporations	176,048,000 (L)	7.00%	1.76%
Fosun International Limited ⁽²⁾	Interest of Controlled Corporations	176,048,000 (L)	7.00%	1.76%
LSV ASSET MANAGEMENT	Investment Manager	150,238,000 (L)	5.98%	1.50%

Note:

- (1) BlackRock, Inc. holds the entire issued share capital of BlackRock Holdco 2, Inc. and BlackRock Holdco 2, Inc. holds the entire issued share capital of BlackRock Financial Management, Inc. In accordance with the Securities and Futures Ordinance of Hong Kong, BlackRock, Inc. and BlackRock Holdco 2, Inc. are deemed to have interests in the Bank held by BlackRock Financial Management, Inc. and its controlled subsidiaries. BlackRock, Inc. had a long position in 347,893,976 H shares and a short position in 5,182,000 H shares of the Company through BlackRock Financial Management, Inc. and other corporations controlled by it, among which, the short position in 358,000 H shares involved derivatives.
- (2) Guo Guangchang holds 64.45% equity interests in Fosun International Holdings Ltd. Fosun International Holdings Ltd. holds 100% equity interests in Fosun Holdings Limited. Fosun Holdings Limited holds 71.70% equity interests in Fosun International Limited. Therefore, Guo Guangchang, Fosun International Holdings Ltd. and Fosun Holdings Limited are deemed to have interests in the shares of the Bank held by Fosun International Limited and corporations controlled by it. Guo Guangchang had a long position in 176,048,000 H shares of the Bank through Fosun International Limited and other corporations controlled by it.
- (3) (L) – Long position, (S) – Short position, (P) – Lending pool.

CORPORATE GOVERNANCE

The Bank is committed to maintaining a high level of corporate governance. The manner in which the principles and code provisions in the Corporate Governance Code are applied and implemented by the Bank is set out in details in the “Corporate Governance Report” of this annual report.

CONNECTED TRANSACTIONS

Transactions between the Bank and the Bank’s connected persons (as defined under the Hong Kong Listing Rules) will constitute connected transactions of the Bank under Chapter 14A of the Hong Kong Listing Rules. However, the relevant connected transactions can be exempted from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules. The Bank has reviewed all its connected transactions and acknowledged that it had complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

The definition of connected persons under Chapter 14A of the Hong Kong Listing Rules is different from the definition of related parties under International Accounting Standard 24, “Related Party Disclosures”, and its interpretations by the International Accounting Standards Board. The related party transactions set out in Note 45 to the Consolidated Financial Statements did not constitute connected transactions of the Bank under Chapter 14A of the Hong Kong Listing Rules.

REMUNERATION POLICY FOR THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Bank has endeavored to improve its remuneration management measures and performance assessment systems for its directors, supervisors and senior management.

The Bank’s remuneration policy for directors, supervisors and senior management is based on the principle of combining incentives and disciplines, short-term incentives and long-term incentives, and market adjustment and governmental regulation, and has defined a structured remuneration system comprising basic annual salary, performance annual salary, tenure incentives, allowances and welfare income.

The Bank participates in the relevant PRC mandatory retirement schemes for its employees including directors, supervisors and senior management. Since the State has not issued relevant policies, the Bank does not implement mid and long-term incentive plan for directors, supervisors, senior management and other employees of the Bank.

For the remuneration of directors, supervisors and senior management of the Bank during the year ended 31 December 2018, please refer to Note 11 to the Consolidated Financial Statements of this report.

SUFFICIENCY OF PUBLIC FLOAT

As at 31 December 2018, the public float of H shares of the Bank was 25.13%. Based on information that is publicly available to the Bank and to the knowledge of the directors, the Bank has maintained sufficient public float as required by the Hong Kong Stock Exchange as at the date of this report.

TAX

Holders of Domestic Shares

According to the relevant regulations of the Individual Income Tax Law of the People's Republic of China, the Bank will withhold an individual income tax at the rate of 20% for natural persons holders of domestic shares; according to the relevant regulations of Enterprise Income Tax Law of the People's Republic of China, holders of domestic shares who are legal persons shall report and pay the enterprise income tax by enterprises themselves.

H Share Holders

Non-resident Enterprise Shareholders

Pursuant to the Enterprise Income Tax Law of the People's Republic of China and related implementation rules, relevant requirements of the "Notice of the State Administration of Taxation on the Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Non-resident Enterprises" (Guo Shui Han [2008] No. 897), the "Notice of State Administration of Taxation on the List of Agreed Dividend Tax Rates" (Guo Shui Han [2008] No. 112) and relevant regulations, the Bank withholds the enterprise income tax at the rate of 10% for non-resident enterprise shareholders whose name appear on the register of members in respect of H shares of the Bank on 8 May 2019.

Non-resident Individual Shareholders

According to Guo Shui Han [2011] No. 348 documents issued by the State Administration of Taxation, PRC, the Bank is required to withhold individual income tax for non-resident individual holders of H Shares, who are entitled to relevant preferential tax arrangement pursuant to the taxation agreements between the countries where they are residing with China and the regulation on taxation arrangement between the Mainland and Hong Kong (Macau).

1. As for non-resident individual holders of H shares in countries which have entered into an agreement with China in respect of a tax rate lower than 10%, the Bank temporarily withholds individual income tax at the rate of 10%. If the relevant non-resident individual H Share Holders wish to reclaim the extra amount withheld, the Bank can, on behalf of the relevant shareholders, apply for the relevant agreed treatment provided that the relevant shareholders shall submit relevant information of preferential tax treatment within the time limit. The extra amount withheld will be refunded after the approval by the competent tax authorities.
2. As for non-resident individual holders of H shares in countries and regions which have entered into an agreement with China in respect of a 10% tax rate, the Bank withholds individual income tax at the rate of 10%.
3. As for non-resident individual holders of H shares in countries which have entered into an agreement with China in respect of a tax rate between 10% and 20%, the Bank withholds individual income tax at the actual rate agreed thereunder.
4. As for non-resident individual holders of H shares in countries which have no tax agreement with China or are under any other circumstances, the Bank withholds individual income tax at the tax rate of 20%.

Investors of Southbound Trading

Individual shareholders in the Mainland of Southbound Trading

Shanghai-Hong Kong Stock Connect:

Pursuant to the Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets (Cai Shui [2014] No. 81), for the distribution of final dividends to mainland individual shareholders who invest in the H shares of the Bank through Shanghai-Hong Kong Stock Connect (these H shares are registered in the name of Hong Kong Securities Clearing Co., Ltd. (agent) and is held by China Securities Depository and Clearing Co., Ltd. as the nominal holder), the Bank will withhold the payment of personal income tax at the rate of 20%. For the distribution of final dividends to shareholders of mainland securities investment funds investing in the H shares of the Bank through Shanghai-Hong Kong Stock Connect (these H shares are registered in the name of Hong Kong Securities Clearing Company Limited and is held by China Securities Depository and Clearing Co., Ltd. as the nominal holder), the Bank will withhold the payment of personal income tax at the rate of 20%.

Shenzhen-Hong Kong Stock Connect:

Pursuant to the Circular on Taxation Policies concerning the Pilot Program of the Shenzhen-Hong Kong Stock Exchange Trading Interconnection Mechanism (Cai Shui [2016] No. 127), for the distribution of final dividends to mainland individual shareholders who invest in the H shares of the Bank through Shenzhen-Hong Kong Stock Connect (these H shares are registered in the name of Hong Kong Securities Clearing Co., Ltd. (agent) and is held by China Securities Depository and Clearing Co., Ltd. as the nominal holder), the Bank will withhold the payment of personal income tax at the rate of 20%. For the distribution of final dividends to shareholders of mainland securities investment funds investing in the H shares of the Bank through Shenzhen-Hong Kong Stock Connect (these H shares are registered in the name of Hong Kong Securities Clearing Company Limited and is held by China Securities Depository and Clearing Co., Ltd. as the nominal holder), the Bank will withhold the payment of personal income tax at the rate of 20%.

*Shareholders of mainland enterprises of Southbound Trading***Shanghai-Hong Kong
Stock Connect:**

Pursuant to the Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets (Cai Shui [2014] No.81), For the distribution of final dividends by mainland corporate shareholders investing in the H shares of the Bank through Shanghai-Hong Kong Stock Connect (these H shares are registered in the name of Hong Kong Securities Clearing Co., Ltd. (agent) and is held by China Securities Depository and Clearing Co., Ltd. as the nominal holder), the Bank will not withhold corporate income tax, and the tax payable shall be submitted and paid by the shareholders of the mainland enterprises themselves. Among them, dividends obtained by shareholders of mainland enterprises who hold H shares of the Bank for 12 consecutive months are exempt from corporate income tax.

**Shenzhen-Hong Kong
Stock Connect:**

Pursuant to the Circular on Taxation Policies concerning the Pilot Program of the Shenzhen-Hong Kong Stock Exchange Trading Interconnection Mechanism (Cai Shui [2016] No. 127), For the distribution of final dividends by mainland corporate shareholders investing in the H shares of the Bank through Shenzhen-Hong Kong Stock Connect (these H shares are registered in the name of Hong Kong Securities Clearing Company Limited and is held by China Securities Depository and Clearing Co., Ltd. as the nominal holder) the Bank will not withhold corporate income tax, and the tax payable shall be submitted and paid by the shareholders of the mainland enterprises themselves. Among them, dividends obtained by shareholders of mainland enterprises who hold H shares of the Bank for 12 consecutive months are exempt from corporate income tax.

AUDITORS

PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have been the Bank's domestic and overseas auditors respectively for 2018.

The Bank's financial report for the year 2018 prepared in accordance with International Financial Reporting Standards had been audited by PricewaterhouseCoopers, who had issued an unqualified audit report.

The Bank did not change auditors for the last three years.

BUSINESS REVIEW

Review on the Business of the Company and Prediction of Possible Development in the Future

In 2018, the Bank has made a new and great progress in operation and management. The total assets of the Group amounted to RMB950.62 billion. The balance of deposits was RMB616.17 billion, representing an increase of RMB43.98 billion. The balance of loans stood at RMB381.14 billion, representing a growth of 12.6%. Net profit amounted to RMB9.164 billion, representing an increase of 1.73% over the same period of last year. The income structure is constantly stable. Net fee and commission income was RMB2.07 billion.

In 2018, the Bank continued to improve its comprehensive risk management system, continuously promoted the implementation of the New Basel Accord and strengthened the application of management tools and means to prevent financial risks. the Bank strengthened the whole process management before, during and after lending, and established a credit risk control mechanism covering the full caliber of in- and out-of-balance sheet business. By formulating prudent and prudent liquidity risk preferences, the Bank continuously enhanced liquidity asset reserves, optimized the term structure of assets and liabilities, and promoted the balance between liquidity risk management and capital management, business development and macro-control. According to different business types, corresponding quota management indicators should be matched to integrate and improve the market risk quota management system. The Bank regularly monitored operational risk status. Through the formulation of information technology risk management strategy and information security strategy, the Bank standardized information technology risk response. The Bank established and improved the reputation risk management mechanism, took the initiative to effectively prevent reputation risk and respond to public opinion events, in order to achieve the overall goal of reputation risk management.

In 2019, the Bank will firmly grasp the regulatory situation and new regulatory requirements, continue to implemented the “Three-Transformation” strategy earnestly, insist on promoting reform and innovation as well as conversion and upgrade, strengthen the innovation of economic technology, speed up the promotion of conversion and upgrade; communicate significant strategic landing, increase the dynamic of interactive marketing; explore the micro retail market, deliver and perform quality products and services; raise the level of fine management, organise and promote the efficiency enhancement of cost reduction; insist on stable asset quality, prevent various risks effectively.

The main risks and uncertainties exposure to the Bank include policy risk, credit risk, liquidity risk, operational risk and financial risk. By promoting comprehensive risk management, continuously refining the systems, enriching working and operating methods and improving technologies, the Bank has effectively enhanced the risk management capability.

Policy Risk

The Bank kept a close eye on the national economic situation, implemented public financial reform policies and complied with the regulatory requirements and terms of Central Bank, CBRC and Hong Kong Stock Exchange to effectively manage the market interest and exchange rate. The Bank actively studied the financial policies which have been already formulated and are under implementation, and made appropriate judgment on the future policy trends, thus ensured the steady and ordered implementation of policies, and avoided policy risk.

Credit Risk

The Bank reinforced the credit risk management by formulating guidance for credit allocation for the year, specified the direction of industrial structure adjustment and key points for management and governance, strengthen the risk control of key areas such as local debts (the governmental financing platforms), the real estate sector and industries with high pollution, high energy consumption and excess capacity, leading to continuous optimisation of credit structure. In addition, the Bank enhanced management on matured loans, and adopted list-based management in respect of customers with high risk and continuously monitored the risk profile. The Bank continuously improved the functions and application scope of credit business management system, and effectively improved the level of credit risk management.

Liquidity Risk

Facing to the complicated and ever-changing liquidity condition in the financial market, the Bank focused on enhancing the liquidity management. It rationally matched the term structure of assets and liabilities. By means of reinforcing management on excess reserve, reserving high-quality liquid assets and reasonably matching the term structure of deposit, the Bank's assets and liabilities remained stable.

Operational Risk

The Bank continuously improved the operational risk management system, established critical risk indicator monitoring mechanism to follow up and understand the risk exposure. The Bank continuously improved internal control management system and optimised the formulation and implementation of control measures. Through prevention of case risk, long-term mechanism of staff behaviour management and combining various daily special checks, the Bank identified and control operational risk comprehensively. The Bank actively promoted the application of information system to achieve rigid control of operational risk and precise and effective risk management. The Bank continuously optimised the recovery system of "Two Areas and Three Centers", commencing emergency rehearsal orderly, and strengthen the ability to control and prevent information technology risk, improving the operation foundation.

Financial Risk

Please refer to "Management Discussion and Analysis" on pages from 13 to 85 of the annual report for further information of financial risk.

Compliance with Laws, Rules and Regulations

The Board of Directors paid close attention to the policies and practices in relation to relevant laws and regulations which the Group has to comply with. The Bank has employed legal advisers for domestic and overseas laws to ensure the transactions and businesses of the Group are carried out under the applicable laws. Relevant employees and operation units will be informed by update on applicable laws, rules and regulations from time to time. Laws and Regulations are the basis and foundation for the legal and compliant operation of the Bank, and also the guidance for the Bank to conduct operating and management activities within the regulatory framework. According to the requirements and changes of laws and regulations, the Bank evaluates the effect on operation and management and make necessary adjustments to ensure healthy business development with legal compliance.

Employment Relations

The Bank placed utmost emphasis on the corporate culture construction, employee management and training, and is committed to build harmonious and stable employment relations. The Bank treasures employees as one of the most important and most valuable assets and has been always cherishing the employees' contribution and support.

In order to facilitate sound operation and sustainable development of the Bank, according to Guidelines on the Supervision of Steady Compensation of Commercial Banks (商業銀行穩健薪酬監管指引) of the CBIRC (the former CBRC) and other relevant requirements, the Bank has established a remuneration system consisting of basic remuneration, performance-based remuneration and welfare, which enables a compensation mechanism in which the Bank can achieve its strategic targets and enhance its competitiveness in line with the cultivation of talents and risk control.

The Bank has made great efforts to provide comfortable and harmonious working environment, sound welfare and compensation system and reasonable career planning. By means of appropriate trainings and opportunity offering, the Bank has helped a lot of employees in career development and promotion.

Relations with Clients and Suppliers

The Bank has been always perfecting the financial services to the clients for deposits and loans and clients from the banking industry to win the clients' understanding, trust and support. The Bank insists on the market principle for all clients who apply for loans, especially the related clients, and avoids special credit aid priority.

In view of the business nature of the Bank, the Bank did not have major suppliers.

Environmental Protection Policy and Implementation of the Bank

The Bank kept focusing on environmental protection, initiated and provided green credit financial services, including offering loans to enterprises engaged in environmental protection industries, new energy industries and new-material industries, and strictly controlled and gradually reduced the credit scale of high-pollution, high-energy-consumption and overcapacity industries.

The Bank also adhered to the concept of environmental protection for internal operation by recycling used papers printing both sides, promoting paperless office, purchasing energy saving equipment, turning off water and power when leaving. Through these measures, water and power consumption amount per capital was continuously reduced as compared to the same period of last year. The Bank is continuously making efforts to reduce energy consumption and carbon emission, and actively carry out all possible works to protect the environment.

For details of the Bank's compliance of laws and regulations that have a significant impact on environmental policies, please refer to the 2018 Corporate Social Responsibility Report of the Bank.

Subsequent Major Events with Significant Influence to the Bank

The Bank conducted a comprehensive review on the financial performance of 2018 pursuant to the national laws and regulatory requirements and prepared annual report for the year of 2018. Save for the above, no major event or case having significant influence to the Bank has occurred after completion of annual financial review.

Permitted Indemnity Provision

There is no permitted indemnity provision was or is in effect which benefit for the directors of the Banks (whether entered into by the Bank or not) or its associates (entered in to by the Bank) at any time during the financial year up to the date of this report of the Board.

Equity-linked Agreement

For the year ended 31 December 2018, the Banks has not entered into any equity-linked agreement.

On behalf of the Board



Liu Jianzhong
Chairman
26 March 2019



Report of the Board of Supervisors

The Board of Supervisors of the Bank conscientiously fulfilled the responsibility assigned by the Articles of Association. The Board of Supervisors was in line with the principles that were conducive to the sustainable and steady development of the Bank's business, the reform and innovation of the Bank, and the protection of shareholders' rights and interests, so as to carry out work with emphasis on performance supervision, financial supervision, internal control and risk supervision, continuously improve the working methods and enhance the effectiveness of supervision, promoting the steady operation and healthy development of the Bank and effectively playing a role of supervision and balance in corporate governance.

MAJOR WORK

Supervision on Meetings

In 2018, the Board of Supervisors convened 9 meetings in total, at which 30 resolutions including the financial budget, profit distribution, and internal control evaluation report were considered and approved. The Board of Supervisors played its role as a special committee and convened 10 related meetings, at which 15 resolutions were considered. To ensure that the meetings were effective before each meeting the issues were submitted to the reviewers as required, opinions were fully discussed at the meetings and implementation of resolutions formed after the meetings. The Board of Supervisors attended 2 general meetings and 8 on-site conferences of the Board of Directors to supervise the meeting process and give supervisory opinions on related issues. The Board of Supervisors participated in 70 important operation and management meetings, including the Party Committee of the head office and presidents' office meetings. It supervised issues involving corporate governance, strategic planning, compliance management, and risk prevention and control, and supervised the implementation of resolutions of the meetings by senior management to improve the quality and effectiveness of prior supervision.

Daily Supervision

In terms of the duty performance supervision, the Board of Supervisors performed its duty to carry out supervision. The Board of Supervisors continued to pay attention to the compliance of the Board of Directors, senior management and its members with the laws and regulations and the Articles of Association, strengthened the supervision of the implementation of the development strategies, and conducted post-strategy assessment. The Board of Supervisors focused on the performance of duties of the Board of Directors and senior management in terms of strategy formulation and implementation, formulation and implementation of capital planning, construction and effectiveness of internal control risk management systems, and compliance with major financial decisions. The Board of Supervisor paid attention to the supervision of the performance of duties, and collected relevant information on corporate governance, operation and management, risk management and control, and internal supervision through measures such as attending meetings, accessing information, conducting interviews, discussions and performance evaluations, to deepen the supervision of the performance of duties.

In terms of financial supervision, the Board of Supervisors focused on supervising the Bank's important financial decisions, revenue and expenditure and risk control, and strengthened the supervision of financial compliance and authenticity, and the effectiveness of financial resources allocation. The Board of Supervisors reviewed the monthly operating indicators on a regular basis, focusing on the operating efficiency, the main financial revenue and expenditure, the development of deposit and loan business, and the trend of changes in asset quality. The board of supervisors paid attention to the communication with the external auditors, reviewed regular reports on audits, and continuously tracked the impact of the implementation of the new accounting standards on the operation and financial revenue and expenditure of the Bank and the trend of the change of the net interest margin of the Bank. The Board of Supervisors carried out post-evaluation work on the remuneration system, focusing on whether the Bank's performance appraisal system effectively promoted the steady development of the Bank's business, the transformation of its asset structure and the continuous improvement of the level of internal control risk management and control.

In terms of internal control and risk supervision, the Board of Supervisors continued to strengthen the effectiveness of internal control and supervision over the compliance with laws and regulations. The Board of Supervisors focused on the organizational structure of internal control, system construction and implementation, quality of internal control inspection, problem rectification and accountability, etc., review the Bank's internal control evaluation report, intensified the use of internal auditing results, seriously reviewed various internal audit reports, and continued tracking the implementation of the rectification of supervision and revelation of issues, so as to promote the improvement of such rectification. The Board of Supervisors extended the chain of supervision, strengthened the supervision of holding companies, carried out research on holding rental companies and conducted specific inspection of internal control management of controlled village and township banks.

Concentrated Supervision

The Board of Supervisors focused on the implementation of national policies, laws and regulations and the "Three Important and One Major" system, main business indicators, strategic sustainable development capabilities, and internal control management and risk prevention, through measures such as on-site inspections, inspections and investigations on extended holding subsidiaries, meetings with auditors, and reviews on relevant archives, so as to organize and implement its concentrated supervision and inspection. In general, the Board of Supervisors believes that the Bank strictly implements all national policies and laws and regulations, maintains prudent risk appetite, establishes a good sense of compliance management, and upholds the principle of strict governance. The Bank completed the annual plan relatively well in various operation indicators, and the internal control management and risk prevention level has been improved continuously.

Special Inspection

The Board of Supervisors actively carried out special inspection work in accordance with the Bank's operating practices and fully performed its supervisory responsibilities. The Board of Supervisors organized and carried out specific inspection on the disposal of non-performing assets, planned to fully understand and grasp the current situation of credit risk management of the Bank through specific inspection on the disposal of non-performing assets, and took inspection as an opportunity to further strengthen the collection and disposal management of non-performing loans of the Bank, to prevent case risks and operational risks, and to improve the refined management level of internal control.

Self-establishment of the Board of Supervisors

The Board of Supervisors enhanced its system construction by establishing a comprehensive method for the duty performance evaluation on Board of Directors, senior management and its members and revising its method for the duty performance evaluation on supervisors to refine the duty performance evaluation on the supervisors. The Board of Supervisors strengthened its supervision over general duties by regularly collecting and organizing major operational data of the Bank and conducting analysis over the key financial indicators as reference for the Board of Supervisors in making comments. The Board of Supervisors refined its supervision mechanism for rectifications by establishing rectification ledger from the perspective of the Board of Supervisors to conduct targeted interviews and track the progress of rectification regularly. It will conduct comprehensive evaluation on the rectification progress for the whole year to promote the effective use of supervision results.

INDEPENDENT OPINIONS ON RELEVANT MATTERS OF THE BANK

Operations in Compliance with Laws and Regulations

During the Reporting Period, the Bank had been operating in compliance with relevant laws and regulations. Its decision making procedures complied with the provisions of laws, regulations and the Articles of Association. The directors and senior management were faithful and honest, and diligent in carrying out their duties. They were not found to have contravened any laws, regulations or the Articles of Association; neither did they commit any acts detrimental to the interests of the Bank.

Financial Reporting

PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers have audited the financial report for the year 2018 of the Company prepared in accordance with the PRC Generally Accepted Accounting Principles and the International Financial Reporting Standards respectively, and has issued a standard and unqualified audit report respectively. The financial report of the Bank gave a true and fair view of the financial position and operating results of the Bank.

Acquisition and Disposal of Assets

During the Reporting Period, the Board of Supervisors was not aware of any insider transactions or any acts in acquisition or disposal of assets that were detrimental to the interests of the shareholders or leading to a loss on the Bank's assets.

Related Party Transactions

During the Reporting Period, the Bank's related party transactions had been conducted in accordance with relevant regulations and systems and the Board of Supervisors was not aware of any actions in the transactions that were detrimental to the interests of the Bank.

Internal Control

The Board of Supervisors has reviewed the 2018 Annual Internal Control Evaluation Report of Chongqing Rural Commercial Bank Co., Ltd. and was not aware of any significant defect in the Bank's internal control system and its implementation.

Social Responsibility

During the Reporting Period, the Bank vigorously undertook social responsibilities. The Board of Supervisors has no disagreement with the 2018 Report on Social Responsibilities of Corporate (2018 年度企業社會責任報告) of the Bank.

On behalf of the Board of Supervisors



Ni Yuemin

Chairwoman of the Board of Supervisors

26 March 2019



Major Events

CORPORATE GOVERNANCE

During the Reporting Period, the Bank continued to strengthen the construction of corporate governance mechanism, actively improved various systems such as internal control, and constantly enhanced corporate governance capability in strict compliance with laws and regulations as well as regulatory documents of regulatory authorities including the Company Law of the People's Republic of China ("Company Law") and the Commercial Banking Law of the People's Republic of China and in line with actual conditions of the Bank.

During the Reporting Period, the Bank had been observing and complying with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules. The Bank commenced training for the directors and published discloseable documents and information on the websites of the Bank and Hong Kong Stock Exchange pursuant to the code provisions. Meanwhile, the Bank also complied with most of the recommended best practices in the aforementioned code. For details, please refer to Corporate Governance Report.

CHANGES ON THE ARTICLES OF ASSOCIATION OF THE COMPANY

During the Reporting Period, relevant requirements of the Guidelines on the Corporate Governance of Commercial Banks (《商業銀行公司治理指引》), Interim Measures for the Equity Management of Commercial Banks (《商業銀行股權管理暫行辦法》) by the the CBIRC (the former CBRC), Guiding Opinions on Comprehensively Advancing the Rule of Law of the Municipal State-owned Enterprises in Cities (《關於全面推進市屬國有企業法治建設的指導意見》) by Chongqing State-Owned Assets Supervision and Administration Commission (重慶市國有資產監督管理委員會), relevant regulatory requirements of China Securities Regulatory Authority and the Hong Kong Listing Rules, based on the actual circumstances of the Bank, certain amendments were made to the Articles of Association, including: firstly, the obligations assumed by the ordinary shareholders of the Bank and the regulations that should be observed in accordance with the regulatory requirements were amended; secondly, the relevant regulations on the time of performance of directors, the prohibition of independent directors, and the qualifications of directors, supervisors, presidents and other senior management were revised; thirdly, corresponding powers of the Board of Directors and the president were added into powers of the Board of Directors and the president; fourthly, the section headed "General Counsel" was added to clearly set up the position of general counsel and determine the duties of general counsel and included the idea of "running enterprises according to law" into the Articles of Association; fifthly, relevant requirements related to (I) the transfer of domestic shares; (II) prevention of shareholders and their related parties from occupying or transferring corporate funds, assets and other resources and (III) information disclosure and reporting to regulatory bodies were added; sixthly, the description of the Party Committee was amended to conform to the Constitution; seventhly, relevant provisions and responsibilities of the Sannong financial service committee and consumer rights protection committee under the Board of Directors were added. Following that the above proposals were considered and approved at the 71st meeting of the third session of the Board, they were submitted to the 2018 first extraordinary general meeting of the Bank for consideration and approval. The amended Articles of Association passed at the 2018 first extraordinary general meeting of the Bank and further amended by the Board of Directors within the scope of authorization came into force on 7 January 2019 upon the approval of the Banking and Insurance Regulatory Commission Chongqing Bureau.

MATERIAL RELATED PARTY TRANSACTIONS

As of the end of the Reporting Period, the loan balance of material related party transactions with related parties amounted to RMB16,559 million, accounting for 4.34% of the total loan of the Bank. Loans under the material related party transactions between the Bank and related parties have no negative impact on operating results and the financial position of the Bank.

MATERIAL LEGAL PROCEEDINGS AND ARBITRATIONS

During the Reporting Period, there were no material legal proceedings or arbitrations which had substantial impact on the operating activities of the Bank.

As of the end of the Reporting Period, pending legal proceedings in which the Bank was a defendant or a third party involved an amount of RMB18.04 million. In the view of the Bank, these will not have any material effect on the Bank's operating activities.

PENALTIES IMPOSED ON THE BANK AND DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE BANK

During the Reporting Period, the Bank, all directors, supervisors and senior management had no record of being subject to inspections, administrative penalties and circulating criticisms by China Securities Regulatory Commission or public censures by stock exchanges, or penalties by relevant regulatory authorities that posed significant impact on the Bank's operation.

PERFORMANCE OF UNDERTAKINGS BY THE BANK OR SHAREHOLDERS HOLDING 5% OR MORE OF THE SHARES

As of the end of the Reporting Period, neither the Bank nor the shareholders holding more than 5% of the total shares in issue gave any undertakings.

MATERIAL CONTRACTS AND THEIR PERFORMANCE

During the Reporting Period, the Group had no material contracts to be performed.

ACQUISITION AND DISPOSAL OF ASSETS AND MERGER OF ENTERPRISES

During the Reporting Period, the Group had no material acquisition and disposal of assets and merger of enterprises.

INITIAL PUBLIC OFFERING of A SHARES

The resolution on the initial public offering and listing of Renminbi Ordinary Shares (the “A Share Offering”), among others, was considered and approved at the 2015 annual general meeting of the Bank which was held on 17 June 2016. The resolution of extension of the term of the A Shares Offering, among others, was considered and approved at the 2016 annual general meeting held on 5 May 2017 and the 2017 annual general meeting held on 27 April 2018.

The Bank complied with the requirements of the relevant laws and regulations and submitted full set of application materials in respect of the A Shares Offering, including the A Share Prospectus Application Proof of Chongqing Rural Commercial Bank Co., Ltd.’s Initial Public Offering of A Shares to the CSRC on 26 December 2017, and “CSRC’s Acceptance Notice of the Application for Administration Permission” (No.172656) (《中國證監會行政許可申請受理通知書》(172656號)) dated 3 January 2018 issued by the CSRC was received on 4 January 2018.

The Bank has submitted the responses and the updated application materials to the CSRC as required after the feedback was obtained on 12 October 2018. Currently, the A Shares Offering is being reviewed and the progress of which meets the expectation. The specific listing date will be determined on the basis of the CSRC’s review and the conditions of the A shares market. After CSRC’s approval of the A Shares Offering, the Bank will carry out the listing registration and other procedures in relation to the A Shares Offering in accordance with the relevant rules, regulations and requirements of the CSRC, the Shanghai Stock Exchange and the China Securities Depository and Clearing Corporation Limited. Program.

For details, shareholders may refer to (i) the supplemental circular and the supplemental notice of the 2015 annual general meeting both dated 6 June 2016 of the Bank; (ii) the announcement of resolutions passed at the 2015 annual general meeting dated 17 June 2016 of the Bank, in relation to, among others, the A Share Offering; (iii) the announcement dated 17 March 2017 of the Bank; (iv) the notice of the 2016 annual general meeting dated 21 March 2017 of the Bank; (v) the circular of the 2016 annual general meeting dated 12 April 2017 of the Bank; (vi) the announcement of resolutions passed at the 2016 annual general meeting dated 5 May 2017 of the Bank; (vii) the announcement dated 12 March 2018 of the Bank; (viii) the notice of the 2017 annual general meeting dated 13 March 2018 of the Bank; (ix) the announcement dated 29 March 2018 of the Bank; (x) the circular of the 2017 annual general meeting dated 4 April 2018 of the Bank; (xi) the announcement of resolutions passed at the 2017 annual general meeting dated 27 April 2018 of the Bank, in relation to, among others, the extension of the term of the A Shares Offering; (xii) the announcement dated 12 October 2018 of the Bank, in relation to the update of application materials.; (xiii) the announcement dated 26 February 2019 of the Bank, in relation to, among others, the proposed extension of the term of the A Shares Offering and other relevant matters; and (xiv) the announcement dated 26 March 2019, in relation to the proposed amendments to the A Shares Offering and dilution of immediate returns and remedy measures.

Changes in Significant Accounting Policies

The Bank has begun to implement IFRS 9, and the new standard IFRS 9 has replaced the original IAS 39. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, new models of expected credit losses for financial asset impairment calculations and new rules for general hedge accounting, and deepens the guidelines for recognition and derecognition of financial instruments in IAS 39.

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

Independent Auditor's Report

To the shareholders of Chongqing Rural Commercial Bank Co., Ltd.

(Incorporated in the People's Republic of China with limited liability)

Opinion

What we have audited

The consolidated financial statements of Chongqing Rural Commercial Bank Co., Ltd. (the "Bank") and its subsidiaries (together, the "Group") set out on pages 175 to 350, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Independent Auditor's Report (Continued)

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

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

Key audit matters identified in our audit are summarised as follows:

- Measurement of expected credit losses ("ECL") for loans and advances to customers
- Consolidation of structured entities

Independent Auditor's Report (Continued)

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers <i>Refer to Note 4, "Changes in Significant Accounting Policies", Note 5, "Critical Accounting Judgements and Estimates" and Note 21, "Loans and Advances to Customers" to the Consolidated Financial Statements.</i> As at 31 December 2018, the Group's gross loans and advances to customers amounted to RMB381,136 million, and a loss allowance of RMB17,133 million was recognised in the Group's consolidated statement of financial position. The impairment losses on loans and advances to customers recognised in the Group's consolidated income statement for the year ended 31 December 2018 amounted to RMB5,809 million. The balances of loss allowance for loans and advances to customers represent the management's best estimates at the balance sheet date of expected credit losses ("ECL") under the expected credit loss models as stipulated in International Financial Reporting Standard No.9: Financial Instruments. The Group assesses whether the credit risk of loans and advances to customers have increased significantly since their initial recognition, and apply a three-stage model to calculate their ECL. Management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates.	We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of expected credit losses for loans and advances to customers, primarily including: – Controls over the selection, approval and application of the ECL modelling methodology; and controls relating to the ongoing monitoring of the models; – Internal controls relating to significant management judgements and assumptions, including the review and approval of portfolio segmentation, model selections, parameters estimation, defining significant increase in credit risk, or of defaults or credit-impaired, and selecting forward-looking economic indicators; – Internal controls over the accuracy and completeness of key inputs used by the models. The substantive procedures we performed, primarily including: – We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the portfolio segmentation, models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We examined the coding for model measurement on a sample basis, to test whether or not the measurement models reflect the modelling methodologies documented by management.

Independent Auditor's Report (Continued)

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers <i>(continued)</i> The measurement models of expected credit losses involves significant management judgements and assumptions, primarily including the following: – Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters; – Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred; – Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings. For measuring expected credit losses, the Group adopted complex models, employed numerous parameters and data inputs, and applied significant management judgements and assumptions. In addition, the loans and advances to customers and the loss allowance are significant. In view of these reasons, we identified this as a key audit matter.	– We selected samples, including the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of management's identification of significant increase in credit risk, defaults and credit-impaired loans. – For forward-looking measurement, we reviewed management's model analysis of their selection of economic indicators; economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings. – We examined major data inputs to the ECL models on selected samples, including historical data and data on measurement date, to assess their accuracy and completeness. We also performed reconciliation of the major data being used to the information systems, to verify their accuracy and completeness. Based on our procedures performed, the models, key parameters, significant judgement and assumptions adopted by management and the measurement results were considered acceptable.

Independent Auditor's Report (Continued)

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation of Structured Entities Refer to Note 3 “<i>Significant Accounting Policies</i>”, Note 5 “<i>Critical Accounting Judgements and Estimates</i>”, and Note 46 “<i>Structured entities</i>” to the Consolidated Financial Statements. As at 31 December 2018, consolidated structured entities of the Group mainly consisted of guaranteed wealth management products. Management assessed whether the structured entities managed or owned and invested by the Group should be consolidated by determining whether control exists. As a result of the complexity of application of control assessments of International Financial Reporting Standard No. 10: Consolidated Financial Statements (“IFRS 10”) and the significant balance of structured entities on reporting date, we considered this should be an area of focus.	Our procedures in relation to management’s assessment on consolidation of structured entities included: – Understood, evaluated and tested management control process adopted on the consolidation assessment of structured entities; – Evaluated management’s accounting policies on control assessment against IFRS 10, including the Group’s power over the structured entities; the Group’s exposure, or rights, to variable returns from involvement with the structured entities; and the Group’s ability to use power over the structured entities to affect the returns; and their application consistency; – Performed sampling testing of structured entities by reviewing supporting documents including contracts and assessed whether they were controlled by the Group; – Understood and evaluated disclosures in the consolidated financial statements in relation to consolidated structured entities. Based on the work done, we found management’s assessments in relation to control of structured entities to be supportable.

Independent Auditor's Report (Continued)

Other Information

The directors of the Bank are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

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

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report (Continued)

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

Independent Auditor's Report (Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yip Siu Foon, Linda.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2019

Consolidated Income Statement

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	NOTE	2018	2017
Interest income	6	39,719,983	39,288,408
Interest expense	6	(19,706,062)	(17,787,678)
Net interest income		20,013,921	21,500,730
Fee and commission income	7	2,203,078	2,454,254
Fee and commission expense	7	(137,282)	(158,673)
Net fee and commission income		2,065,796	2,295,581
Net trading gains/(losses)	8	3,807,269	(36,765)
Other operating income, net	9	204,574	210,498
Operating income		26,091,560	23,970,044
Operating expenses	10	(8,165,130)	(8,329,545)
Impairment losses on financial assets	12	(6,195,904)	(3,710,602)
Net gains on disposal of financial assets measured at fair value through other comprehensive income		39,579	N/A
Net gains on disposal of financial assets measured at amortised cost		1,815	N/A
Net gains from disposals of available-for-sale financial assets		N/A	25,076
Net gains from disposals of debt securities classified as receivables		N/A	4,752
Profit before tax		11,771,920	11,959,725
Income tax expense	13	(2,607,883)	(2,951,371)
Profit for the year		9,164,037	9,008,354
Attributable to:			
Shareholders of the Bank		9,058,191	8,935,973
Non-controlling interests		105,846	72,381
		9,164,037	9,008,354
Earnings per share (Expressed in RMB Yuan per share)			
– Basic and Diluted	14	0.91	0.94

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	2018	2017
Profit for the year	9,164,037	9,008,354
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
(Losses)/Gains on remeasurement of defined benefit plans	(175,552)	182,783
Net losses on financial assets measured at fair value through other comprehensive income-equity instruments	(60,019)	N/A
	<u>(235,571)</u>	<u>182,783</u>
Items that may be reclassified subsequently to profit or loss:		
Net gain on financial assets measured at fair value through other comprehensive income-debt instruments	148,931	N/A
Fair value losses on available-for-sale financial assets	N/A	(162,892)
	<u>148,931</u>	<u>(162,892)</u>
Other comprehensive income/(losses) for the year, net of tax	<u>(86,640)</u>	<u>19,891</u>
Total comprehensive income for the year	<u>9,077,397</u>	<u>9,028,245</u>
Total comprehensive income attributable to:		
Shareholders of the Bank	8,971,551	8,955,864
Non-controlling interests	<u>105,846</u>	<u>72,381</u>
Total comprehensive income for the year	<u>9,077,397</u>	<u>9,028,245</u>

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

Consolidated Statement of Financial Position

As at 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	NOTE	31 December 2018	31 December 2017
ASSETS			
Cash and balances with central bank	16	85,935,176	97,012,085
Deposits with banks and other financial institutions	17	32,208,145	45,380,379
Placements with banks and other financial institutions	18	138,543,543	102,641,378
Derivative financial assets	19	93,990	169,629
Financial assets held under resale agreements	20	6,000,733	2,443,685
Loans and advances to customers	21	364,026,148	324,109,622
Financial investments	22		
Financial assets measured at fair value through profit or loss		15,094,518	519,234
Financial assets measured at fair value through other comprehensive income		7,713,114	N/A
Financial assets measured at amortised cost		289,564,720	N/A
Available-for-sale financial assets		N/A	165,780,616
Held-to-maturity investments		N/A	72,444,185
Investments classified as receivables		N/A	78,743,066
Property and equipment	24	4,841,593	5,000,967
Goodwill	25	440,129	440,129
Deferred tax assets	35	4,512,960	3,256,728
Other assets	27	1,643,270	7,836,377
Total assets		950,618,039	905,778,080
LIABILITIES			
Borrowings from central bank	28	30,454,523	31,338,420
Deposits from banks and other financial institutions	29	23,500,698	85,487,818
Placements from banks and other financial institutions	30	28,873,761	22,979,936
Derivative financial liabilities	19	83,907	176,589
Financial assets sold under repurchase agreements	31	5,920,678	7,545,030
Deposits from customers	32	616,166,192	572,184,256
Accrued staff costs	33	5,625,314	5,022,904
Income tax payable		960,672	877,159
Debt securities issued	34	159,609,417	103,901,345
Other liabilities	36	7,274,015	11,018,938
Total liabilities		878,469,177	840,532,395

Consolidated Statement of Financial Position (Continued)

As at 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	NOTE	31 December 2018	31 December 2017
EQUITY			
Share capital	37	10,000,000	10,000,000
Capital reserve	38	12,483,907	12,501,557
Investment revaluation reserve	39	51,108	(109,673)
Actuarial changes reserve		(306,203)	(130,651)
Surplus reserve	40	10,346,945	9,457,152
General reserve	41	12,225,243	10,726,344
Retained earnings	42	25,947,255	21,243,958
Equity attributable to shareholders of the Bank		70,748,255	63,688,687
Non-controlling interests		1,400,607	1,556,998
Total equity		72,148,862	65,245,685
Total equity and liabilities		950,618,039	905,778,080

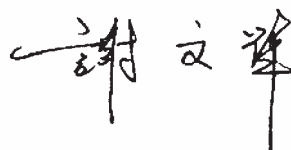
The accompanying notes form an integral part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 26 March 2019.



LIU JIANZHONG

CHAIRMAN



XIE WENHUI

EXECUTIVE DIRECTOR AND PRESIDENT

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	NOTE	Attributable to shareholders of the Bank							Non-controlling interests	Total	
		Share capital	Capital reserve	Investment revaluation reserve	Actuarial changes reserve	Surplus reserve	General reserve	Retained earnings			Subtotal
As at 31 December 2017		10,000,000	12,501,557	(109,673)	(130,651)	9,457,152	10,726,344	21,243,958	63,688,687	1,556,998	65,245,685
Change in accounting policy	4	–	–	71,869	–	–	–	33,798	105,667	8,763	114,430
As at 1 January 2018 (Restated)		10,000,000	12,501,557	(37,804)	(130,651)	9,457,152	10,726,344	21,277,756	63,794,354	1,565,761	65,360,115
Profit for the year		–	–	–	–	–	–	9,058,191	9,058,191	105,846	9,164,037
Other comprehensive income		–	–	88,912	(175,552)	–	–	–	(86,640)	–	(86,640)
Total comprehensive income for the year		–	–	88,912	(175,552)	–	–	9,058,191	8,971,551	105,846	9,077,397
Contribution from shareholders											
Transactions with non-controlling interests		–	(17,650)	–	–	–	–	–	(17,650)	(247,000)	(264,650)
Appropriation to surplus reserve	40	–	–	–	–	889,793	–	(889,793)	–	–	–
Appropriation to general reserve	41	–	–	–	–	–	1,498,899	(1,498,899)	–	–	–
Dividend distribution	15	–	–	–	–	–	–	(2,000,000)	(2,000,000)	(24,000)	(2,024,000)
As at 31 December 2018		10,000,000	12,483,907	51,108	(306,203)	10,346,945	12,225,243	25,947,255	70,748,255	1,400,607	72,148,862

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

NOTE	Attributable to shareholders of the Bank							Subtotal	Non-controlling interests	Total
	Share capital	Capital reserve	Investment revaluation reserve	Actuarial changes reserve	Surplus reserve	General reserve	Retained earnings			
As at 1 January 2017	9,300,000	9,201,954	53,219	(313,434)	8,580,210	9,473,893	16,297,378	52,593,220	1,596,617	54,189,837
Profit for the year	-	-	-	-	-	-	8,935,973	8,935,973	72,381	9,008,354
Other comprehensive income	-	-	(162,892)	182,783	-	-	-	19,891	-	19,891
Total comprehensive income for the year	-	-	(162,892)	182,783	-	-	8,935,973	8,955,864	72,381	9,028,245
Contribution from shareholders	700,000	3,291,332	-	-	-	-	-	3,991,332	-	3,991,332
Transactions with non-controlling interests	-	8,271	-	-	-	-	-	8,271	(112,000)	(103,729)
Appropriation to surplus reserve	40	-	-	-	876,942	-	(876,942)	-	-	-
Appropriation to general reserve	41	-	-	-	-	1,252,451	(1,252,451)	-	-	-
Dividend distribution	15	-	-	-	-	-	(1,860,000)	(1,860,000)	-	(1,860,000)
As at 31 December 2017	10,000,000	12,501,557	(109,673)	(130,651)	9,457,152	10,726,344	21,243,958	63,688,687	1,556,998	65,245,685

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	2018	2017
Cash flows from operating activities		
Profit before tax	11,771,920	11,959,725
Adjustments for:		
Depreciation and amortisation	750,594	805,725
Impairment loss on assets	6,195,904	3,710,602
Interest income arising from investment securities	(11,040,522)	(13,939,168)
Interest income arising from impaired financial assets	(57,550)	(71,265)
Interest expense arising from debt securities issued	4,872,694	3,989,308
Net gain on disposal of investment securities	(41,394)	(29,828)
Dividends income from investment securities	(1,308)	(4,957)
Net gain on disposal of property and equipment	(15,848)	(37,768)
Fair value (gain)/loss	(510,600)	28,721
Exchange gain	(94,932)	(65,478)
Operating cash flows before movements in working capital	11,828,958	6,345,617
Decrease/(Increase) in balances with central bank, deposits with banks and other financial institutions	26,776,428	(22,328,657)
Increase in placements with banks and other financial institutions	(53,073,621)	(12,514,583)
Decrease in financial assets held under resale agreements	–	2,999,871
Decrease in financial assets measured at fair value through profit or loss	219,958	3,980,394
Increase in loans and advances to customers	(44,086,564)	(39,828,318)
Decrease in financial assets sold under repurchase agreements	(1,639,828)	(1,420,433)
(Decrease)/Increase in borrowings from central bank	(1,359,618)	6,383,920
Increase in placements from banks and other financial institutions	5,696,467	2,224,442
(Decrease)/Increase in deposits from customers, deposits from banks and other financial institutions	(25,414,404)	35,203,666
Decrease in other operating assets	422,290	68,564
Increase in other operating liabilities	3,193,945	2,839,215
Cash used by operating activities	(77,435,989)	(16,046,302)
Income tax paid	(3,787,288)	(3,320,664)
Net cash flows (used in)/from operating activities	(81,223,277)	(19,366,966)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

	NOTE	2018	2017
Cash flows from investing activities			
Cash received from disposal and redemption of investment securities		189,853,750	470,784,048
Interest income received from investment securities		9,603,716	13,667,857
Cash received from disposal of property and equipment and other assets		31,925	90,903
Cash paid for purchase of investment securities		(180,076,310)	(528,709,726)
Cash paid for purchase of property and equipment and other assets		(591,265)	(786,196)
Dividends income from investment securities		1,308	4,957
Net cash from/(used in) investing activities		18,823,124	(44,948,157)
Cash flows from financing activities			
Contribution from shareholders		—	3,991,332
Transactions with non-controlling interests		(264,650)	(103,729)
Debt securities issued		147,680,618	189,936,007
Redemption of bonds issued		(96,550,000)	(148,040,000)
Dividends paid to shareholders of the Bank		(2,013,556)	(1,969,035)
Dividends paid to shareholders of non-controlling interests		(24,000)	—
Interest paid on debt securities issued		(471,000)	(471,000)
Net cash from financing activities		48,357,412	43,343,575
Net decrease in cash and cash equivalents		(14,042,741)	(20,971,548)
Cash and cash equivalents as at 1 January		48,608,610	69,664,471
Effect of foreign exchange rate changes		71,568	(84,313)
Cash and cash equivalents as at 31 December	43	34,637,437	48,608,610
Net cash from operating activities include:			
Interest received		27,774,560	24,115,303
Interest paid		(15,288,463)	(12,808,779)
Net interest received from operating activities		12,486,097	11,306,524

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

1. GENERAL INFORMATION

Chongqing Rural Commercial Bank Co., Ltd. (the “Bank”) is a joint-stock commercial bank incorporated in the People’s Republic of China (the “PRC”) on 27 June 2008. Prior to its incorporation, the business acquired by the Bank (the “Business”) was carried out by 38 rural credit cooperative unions and Chongqing Wulong Rural Cooperative Bank in Chongqing of the PRC (collectively, the “39 Rural Credit Unions”). All of them were managed by the Chongqing Rural Credit Cooperative Union (the “CRCCU”) at the municipal level of Chongqing, the PRC.

Pursuant to the promoters’ agreement among the promoters of the Bank, the Bank acquired all the assets and liabilities of the 39 Rural Credit Unions and the CRCCU on 27 June 2008, and the Business was transferred to the Bank.

The Bank was listed on The Stock Exchange of Hong Kong Limited on 16 December 2010.

The Bank has financial services certificate No. B0335H250000001 issued by the China Banking Regulatory Commission (the former “CBRC”. It was renamed as “China Banking and Insurance Regulatory Commission” in 2018, hereinafter referred to as “CBIRC”), and a corporate legal person business license with a unified social credit code 91500000676129728J issued by the Chongqing Administration of Industry and Commerce.

The principal activities of the Bank and its subsidiaries (together referred to as the “Group”) comprise the provision of banking services, which includes deposit taking, loan lending, payment and settlement services, financial leasing and other services as approved by the CBIRC.

2. BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which collectively include accounting standards and related interpretations issued by the International Accounting Standards Board (the “IASB”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

2.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

2. BASIS OF PREPARATION (Continued)

2.2 Basis of preparation (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 “Share-based Payment”, leasing transactions that are within the scope of IAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 “Inventories” or value in use in IAS 36 “Impairment of Assets”.

In addition, for financial reporting purposes, fair value measurements are categorised into Levels 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described in Note 50.

2.3 New standards, amendments and interpretations effective in 2018 and adopted by the Group

The following standards and amendments have been adopted by the Group for the first time for the financial year ended 31 December 2018:

- | | | |
|-----|--|---|
| (a) | Amendments to IAS 28 | Investments in Associates and Joint Ventures to IFRSs included in the Annual Improvements 2014 – 2016 Cycle |
| (b) | Amendments to IFRS 2 | Share-based Payment |
| (c) | Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts |
| (d) | IFRS 9 | Financial Instruments |
| (e) | IFRS 15 | Revenue from Contracts with Customers |
| (f) | IFRIC 22 | Foreign Currency Transactions and Advance Consideration |
| (g) | Amendments to IAS 40 | Transfer of Investment Property |
| (a) | <i>Amendments to IAS 28: Investments in Associates and Joint Ventures to IFRSs included in the Annual Improvements 2014 – 2016 cycle</i> | |

These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment – by – investment basis, upon initial recognition.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.3 New standards, amendments and interpretations effective in 2018 and adopted by the Group (Continued)

(b) *Amendments to IFRS 2: Share-based Payment*

On 20 June 2017, the IASB issued an amendment to IFRS 2, “Share-based Payment”. The amendments address the accounting for cash-settled share-based payments and equity-settled awards that include a “net settlement” feature in respect of withholding taxes.

(c) *Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and the forthcoming insurance contracts standard.

(d) *IFRS 9: Financial Instruments*

IFRS 9 was published by the IASB in July 2014 and replaced IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge account requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS39. The new accounting policies in accordance with IFRS 9 and its impacts are disclosed in Note 4 “Changes in significant accounting policies” and Note 5 “Critical accounting judgements and estimates”, respectively.

(e) *IFRS 15: Revenue from Contracts with Customers*

The IASB has amended IFRS 15, “Revenue from contracts with customers”. In April 2016, IASB issued the amendment of IFRS 15 to clarify three areas: the principal versus agent assessment (revenue gross vs net presentation), identifying distinct performance obligation and accounting for licence.

(f) *IFRIC 22: Foreign Currency Transactions and Advance Consideration*

The IASB issued IFRIC 22 “Foreign Currency Transactions and Advance Consideration”, to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.3 New standards, amendments and interpretations effective in 2018 and adopted by the Group (Continued)

(g) Amendments to IAS 40: Transfer of Investment Property

On 8 December 2016, the IASB issued amendments to IAS 40 – Transfer of Investment Property. These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred

Except for the application of IFRS9, the adoption of the new standards, amendments and interpretations mentioned above do not have a significant impact on the Group's consolidated financial statements.

2.4 New standards, amendments and interpretations not yet effective and have not been adopted before their effective dates in 2018

			Effective for annual periods beginning on or after
(a)	Amendments to IFRS 3, IFRS 11 and IAS 12, IAS 23	IASB Annual Improvements 2015 – 2017 cycle	1 January 2019
(b)	IFRS 16	Leases	1 January 2019
(c)	IFRS 17	Insurance Contracts	1 January 2022
(e)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.
(f)	Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019
(g)	Amendments to IAS 19	Employee Benefits Regarding Plan Amendment, Curtailment or Settlement	1 January 2019

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.4 New standards, amendments and interpretations not yet effective and have not been adopted before their effective dates in 2018 (Continued)

(a) Amendments to IFRSs and IASs: Annual Improvements to IFRSs 2015 – 2017 cycle

The Annual Improvements to IFRSs 2015 – 2017 Cycle include a number of amendments to various IFRSs and IASs, including the amendments to IFRS 3 – Business combinations, the amendments to IFRS 11 – Joint arrangements, the amendments to IAS 12 – Income taxes, the amendments to IAS 23 – Borrowing costs. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

In June 2017, the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group's consolidated financial statements.

(b) IFRS 16: Leases

The IASB published IFRS 16, "Leases" on 13 January 2016, which replaces the current guidance in IAS 17. This will require far-reaching changes in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB204 million (see Note 47). Without consideration low value leases and short-term leases, the Group anticipates that the adoption of this standard will not have a significant impact on the Group's consolidated financial statements.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group expects that, as a lessor, the adoption of IFRS 16 will not have significant impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.4 New standards, amendments and interpretations not yet effective and have not been adopted before their effective dates in 2018 (Continued)

(c) *IFRS 17: Insurance Contracts*

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. The Group is still assessing the impact of IFRS 17 on the Group's consolidated financial statements.

(d) *Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture*

These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

(e) *Amendments to IFRS 9: Prepayment Features with Negative Compensation*

The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

(f) *Amendments to IAS 19: Employee Benefits Regarding Plan Amendment, Curtailment or Settlement*

The IASB published amendments to IAS 19: Employee benefits' regarding plan amendment, curtailment or settlement on 8 February 2018, which requires the entity to determine the amount of any past service costs or gains or losses on settlement by measuring the net defined benefit liabilities before and after the amendment, using the current assumptions and the fair value of the planned assets at the time of the amendment. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and subsidiaries (including structured entities) controlled by the Bank. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the shareholders of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the shareholders of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3.2 Consolidated structured entities

The unguaranteed wealth management products ("WMPs") controlled by the Group are presented in the consolidated statement of financial position. In accordance with IFRS9 "Financial Instruments", the financial assets and liabilities held by WMPs are properly classified, according to the criteria, such as the objective and intention of holding, whether there is a quoted price in active market, cash flows of financial instruments, and so forth. The fair value of unguaranteed WMPs of consolidated structured entities is measured in accordance with IFRS 13 "Fair Value Measurement". Normally, the cost of initial recognition of financial instrument is not up to the requirement of subsequent measurement of fair value, unless there are sufficient evidences or reasons illustrating that the cost is still the proper estimate of fair value on the date of measurement.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Consolidated structured entities (Continued)

On the financial reporting date, the Group assesses whether there is objective evidence of impairment of consolidated structured entities except for financial assets measured at fair value through profit and loss. The amount by which the carrying amount exceeds recoverable amount is recognised as an impairment loss. Recoverable amount of consolidated structured entities is the higher of their fair value less costs of disposal and their value in use.

3.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting. The chief operating decision-maker allocates resources and assesses performance of the operating segments, according to the segment reporting.

3.4 Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. Specific recognition criteria for different nature of revenue are disclosed below.

(a) *Interest income and expense*

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- (i) Purchased or Originated Credit Impaired (“POCI”) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.
- (ii) Financial assets that are not POCI but have subsequently become credit-impaired (or “stage 3”), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss allowance).

(b) *Fee and commission income*

Fees and commission income is recognised at the specific point of time or for a certain period of time when the Group fulfills its performance obligations in the contract, that is, when customer obtains control of relevant services.

Fees and commissions charged for performance obligations performed at specific point of time are recognised when customer obtains control of relevant services, mainly including agency insurance, merchant receipt, clearing and settlement, bond underwriting income, etc. Fees and commissions charged for performance obligations performed during a certain period of time are recognised according to the progress of the performance during that period, mainly including, consultant and consulting income, custody income, etc.

(c) *Dividend income*

Dividend income from investments is recognised when the Group’s right to receive payment is established.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(a) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated financial statements because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(b) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6 Taxation (Continued)

(b) Deferred tax (Continued)

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.7 Employee benefits

In the period in which an employee has rendered services, the Group recognises the employee benefits payable for those services as a liability.

(a) Social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the government, including social insurance, housing funds and other social welfare contributions. The Group contributes on a monthly basis to these funds based on certain percentage of the salaries of the employees and the contributions are recognised in profit or loss for the year in which they are incurred. The Group's liabilities in respect of these funds are limited to the contribution payable in the relevant periods.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Employee benefits (Continued)

(b) Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered services entitling them to the contributions.

The Group provides supplementary retirement benefits to its employee classified as defined benefit retirement plans. For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in equity and will not be reclassified to profit or loss. Current service cost and past service cost are recognised in profit or loss in the period of a plan amendment.

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line item "Operating expenses". Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Employee benefits (Continued)

(c) Early retirement benefits

The Group provides early retirement benefits to those employees who accept the early retirement arrangement.

Obligations of early retirement benefits are calculated by an independent actuary using the projected unit credit method at the end of the reporting period. All resulting gains or losses are charged or credited to profit or loss immediately as “Operating expenses” when they occur.

3.8 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the year in which they become receivable.

3.9 Financial instruments

The Group has adopted IFRS 9 “Financial Instruments” beginning on 1 January 2018. As permitted by the transitional provisions of IFRS 9, the Group 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 comprehensive income of the current period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

Measurement method

Amortised cost and effective interest rate

The amortised cost is determined at the financial assets or financial liabilities at initial recognition after being adjusted as follows:

- (i) deducting the principal repaid;
- (ii) adding or deducting the cumulative amortization of any difference between the amount at initial recognition and the amount at the maturity date using the effective interest method;
- (iii) deducting any loss allowance (solely for financial assets).

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses ("ECL") and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired ("POCI") financial assets, the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments traded in active markets is based on quoted market prices (unadjusted) at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. When using valuation techniques, unobservable market inputs would not be used unless relevant observable inputs are not available or not practical to access.

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases or sales of financial assets are recognised on the trade date, on which the Group commits itself to purchase or sale the asset.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

Initial recognition and measurement (Continued)

Financial assets and liabilities are measured initially at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, i.e. fee and commission. Transaction costs of financial assets or financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Subsequent to initial recognition, expected credit losses of financial investments measured at amortised cost and debt instruments measured at fair value through other comprehensive income are recognised in profit or loss immediately. The difference between the transaction amount and the fair value at initial recognition is accounted for as follows:

- The difference is recognised as a gain or loss only if fair value is evidenced by a quoted price in an active market for an identical asset or liability (that is, a level 1 input) or based on a valuation technique that uses only data from observable markets.
- In other cases, the Group deferred the difference and determined the time when the profit or loss was recognised after the deferral of the first day. The difference may be amortised over the lifetime of the financial instrument or deferred until the fair value of the instrument can be determined using observable market information, or the profit or loss can be realised when the financial instrument is settled.

(a) *Financial assets*

(i) Classification and subsequent measurement

The Group classifies financial assets according to the following measurement categories:

- Fair value through profit or loss ("FVPL");
- Fair value through other comprehensive income ("FVOCI"); or
- Amortised cost ("AC").

The classification requirements of debt instruments and equity instruments are described as below:

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

Initial recognition and measurement (Continued)

(a) Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the the issuer's perspective, such as loans, government bonds, and corporate bonds.

Classification and measurement of debt instruments depend on:

- The Group's business model for managing the financial asset; and
- The contractual cash flows characteristics of the financial asset.

Based on these factors, the Group classifies its debt instruments into the following three measurement categories:

Financial assets are classified as financial assets measured at amortised cost if the assets are managed within a business model whose objective is to hold assets in order to collect contractual cash flows; the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and the assets are not designated at fair value through profit or loss. The carrying amount of the asset is adjusted in accordance with the expected credit loss allowances recognised and measured. The Group uses the effective interest method to calculate the interest income of the asset and discloses it as "interest income".

Financial assets are classified as financial assets measured at fair value through other comprehensive income ("OCI") if the assets are managed within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets, the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and the assets are not designated at fair value through other comprehensive income. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and disclosed as "Net trading gain". Interest income from these financial assets is included in "interest income" using the effective interest method.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

(a) Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Financial assets are classified as financial assets measured at fair value through profit or loss if the assets do not meet the criteria for amortised cost or fair value through other comprehensive income. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within “Net trading gain” in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separated in “Net trading gain”.

The business model reflects how the Group manages financial assets to generate cash flows. That is, whether the Group’s objective is solely to collect the contractual cash flows from the asset or is to collect both the contractual cash flows and cash flows arising from the sale of financial assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of “other” business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset’s performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Trading securities are primarily held for sale in the near future or as part of a portfolio of financial instruments and the portfolio has a short-term profit model. The business model of these securities is “other”, which is measured at fair value through profit or loss.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments’ cash flows represent solely payments of principal and interest (“SPPI”). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic leading risks and a profit margin that is consistent with a basic lending arrangement.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

(a) Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic leading arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determine whether their cash flows are SPPI.

The Group reclassifies it if and only if the business model of the debt instrument investment changes, and performs the reclassification at the beginning of the first reporting period after the change has occurred. The Group anticipates that such changes are very rare and did not occur during the year.

Equity Instrument

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy for the above-mentioned designation is to designate equity instrument investments that are not for the purpose of obtaining investment income as financial assets measured at FVOCI. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses and reversals are not presented as separate items and are included in changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as investment income when the Group's right to receive payments is established.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

(a) Financial assets (Continued)

(i) Classification and subsequent measurement (Continued)

Gains and losses on equity investments at FVPL are included in the “Net trading gain” in the consolidated income statement.

(ii) Impairment of financial instruments

The Group assesses on a forward-looking basis the expected credit losses (“ECL”) associated with its debt instrument assets carried at amortised cost and FVOCI and with exposure arising from some loan commitments and financial guarantee contracts. The Group recognises relevant loss allowances at each reporting date. The Group’s measurement of ECL of a financial instrument reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(iii) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan;

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

(a) Financial assets (Continued)

(iii) Modification of loans (Continued)

- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in;
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a “new” asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Notes to the Consolidated Financial Statements (Continued)

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

(a) Financial assets (Continued)

(iv) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

When the contractual rights to receive the cash flows from the assets have been transferred, and the Group neither transfers nor retains substantially all the risks and rewards of ownership, and the Group has retained control of the transferred assets, the Group applies continuing involvement approach. Under this approach, the Group continues to recognise the transferred asset to the extent of its continuing involvement and recognise the associated liability, to reflect the rights and obligations retained by the Group. The net carrying amount of the transferred asset and associated liability is: (a) the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost; or (b) equal to the fair value of the rights and obligations retained by the Group when measured on a stand-alone basis, if the transferred asset is measured at fair value.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

(a) Financial assets (Continued)

(iv) Derecognition other than on a modification (Continued)

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial asset did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; when continuing involvement approach applies.
- Financial guarantee contracts and loan commitments

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

(a) Financial assets (Continued)

(v) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculation as described in note 49); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial instruments (Continued)

(a) Financial assets (Continued)

(v) Derecognition (Continued)

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculation as described in note 49). The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as estimated liabilities.

3.10 Property and equipment

Property and equipment including buildings held for use in the supply of services, or for administrative purpose (other than construction in progress), are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for supply of services or administrative purposes are carried at cost, less any recognised impairment losses. Costs include professional fees and other directly attributable costs. Such properties are classified to the appropriate category of property and equipment when completed and ready for its intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Property and equipment (Continued)

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continuing use of the asset. Any gain or loss arising from the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.11 Land use rights

Land use rights are classified in other assets and amortised over a straight-line basis over their authorised useful lives.

3.12 Intangible assets

(a) *Intangible assets acquired separately*

Intangible assets acquired separately with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

(b) *Intangible assets acquired in a business combination*

Intangible assets acquired in a business combination are identified and recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Impairment of tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3.14 Foreclosed assets

Foreclosed assets are initially recognised at fair value and subsequently measured at lower of its carrying amount and fair value less costs to sell at the end of the reporting period. When the fair value less costs to sell is lower than the foreclosed asset's carrying amount, an impairment loss is recognised in profit or loss.

Any gain or loss arising from disposal of the foreclosed asset is included in profit or loss in the year in which the item is disposed.

A foreclosed asset used by the Group is transferred to property and equipment at carrying amount.

3.15 Cash and cash equivalents

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(a) The Group as lessor

When the Group is the lessor in a finance lease, an amount representing the minimum lease payment receivables and unguaranteed residual value, net of initial direct costs, all discounted at the implicit lease rate (the “net lease investment”) is recorded in the consolidated statement of financial position as Loans and Advances to Customers. The difference between the net lease investment and the undiscounted amount is recorded as unearned finance income, amortizing over the term of the lease using the effective interest method and recognised in the consolidated income statement. Impairment losses on lease receivables are accounted for in accordance with the accounting policies as financial instruments impairment.

When the Group is the lessor in an operating lease, the assets subject to the operating lease continue to be recognised as the Group’s property and equipment. Rental income from operating leases is recognised as Other Operating Income in the consolidated income statement on a straight-line basis over the term of the related lease.

(b) The Group as lessee

When the Group is a lessee under finance leases, the leased assets are capitalised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The minimum lease payments are recognised in liabilities. The differences are recognised in unrecognised financial charges. Finance charges are charged over the term of the lease using the effective interest method and recognised in the consolidated income statement. The depreciation policy for depreciable-leased assets is consistent with that for depreciable assets that are owned.

When the Group is the lessee in an operating lease, operating lease payments are recognised as an expense and charged to Operating Expenses in the consolidated income statement on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as expenses in the periods in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are considered in determining the amount to be recognised over the lease term.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Fiduciary and agency activities

The fiduciary and agency activities of the Group include granting the trust loans on behalf of third-party lenders and operating non-guaranteed wealth management business. The Group only receives commissions without taking main risks related to these activities. Related assets and the obligation of returning such assets on maturity to principals should be off-balance accounted.

3.18 Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

The Group assesses on a forward-looking basis the expected credit losses (“ECL”) associated with exposure arising from loan commitments and financial guarantee contracts. The measurement of ECL allowance for loan commitments and financial guarantee contracts are described in Note 3.9 and 49(3).

3.19 Foreign currency translation

(a) Functional and presentation currency

The consolidated financial statements are presented in Renminbi (RMB), which is the Bank’s functional and the Group’s presentation currency.

(b) Transactions and balances

Transactions in currencies other than the functional currency of the Bank (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at that date. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currency using the spot exchange rates at the transaction dates.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Foreign currency translation (Continued)

(b) Transactions and balances (Continued)

At the date of reporting, monetary items denominated in foreign currencies are translated into the functional currency at the spot exchange rates at that date. Changes in the fair value of debt securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the securities and other changes in the carrying amount of the securities. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Translation differences on other monetary financial assets and liabilities are recognised in profit or loss.

Translation differences on non-monetary financial assets and liabilities measured at fair value are recognised in consolidated income statement; unless the gains and losses related to the non-monetary items are directly recognised in other comprehensive income, in which situation that translation differences are included in other comprehensive income.

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

4.1 The impact of applying IFRS 15

The IASB has amended IFRS 15, “Revenue from contracts with customers”, and the first implementation date of which is 1 January 2018. The change constitutes a change in accounting policies. The Group has adopted the above standards in the preparation of the financial statements for the year ended 31 December 2018. The adoption of the above standards has not had a significant impact on the Group’s financial statements.

4.2 The impact of applying IFRS 9

The Group has adopted IFRS 9 “Financial Instruments” (“IFRS 9”, replaced the original International Accounting Standards 39: Financial Instruments-Recognition and Measurement) as issued by the IASB in July 2014 with a date of transition on 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group 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 comprehensive income of the current period. Any differences between the book value at 1 January 2018 and that as at 31 December 2017 is due to the implementation of IFRS 9.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 The impact of applying IFRS 9 (Continued)

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details of the specific IFRS 9 accounting policies applied in the current period are described in note 3.

(a) Classification and measurement of financial instruments

The classification and the carrying amount of financial assets and liabilities in accordance with the original financial instruments standard, IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

Group	IAS 39		IFRS 9	
	Measurement category	Carrying amount	Measurement category	Carrying amount
Financial assets				
Cash and balances with central bank	Amortised cost	97,012,085	Amortised cost	97,012,085
Deposits with banks and other financial institutions	Amortised cost	45,380,379	Amortised cost	45,330,151
Placements with banks and other financial institutions	Amortised cost	102,641,378	Amortised cost	102,523,299
Derivative financial assets	FVTPL	169,629	FVPL	169,629
Financial assets held under resale agreements	Amortised cost	2,443,685	Amortised cost	2,442,047
Loans and advances to customers	Amortised cost	324,109,622	Amortised cost	314,581,757
	FVOCI	10,020,879		
Financial investments	FVTPL (for trading)	519,234	FVPL	149,008,997
	FVOCI (available-for-sale financial assets)	165,780,616	FVOCI	8,160,355
	Amortised cost (held-to-maturity investments)	72,444,185	Amortised cost	160,555,509
	Amortised cost (investments classified as receivables)	78,743,066		

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 The impact of applying IFRS 9 (Continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from the classification in accordance with IAS 39 to new measurement categories upon transition to IFRS 9 as at 1 January 2018:

	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
Amortised cost				
Deposits with banks and other financial institutions				
Carrying amount under IAS 39	45,380,379			
Remeasurement: ECL allowance			(50,228)	
Carrying amount under IFRS 9				45,330,151
Placements with banks and other financial institutions				
Carrying amount under IAS 39	102,641,378			
Remeasurement: ECL allowance			(118,079)	
Carrying amount under IFRS 9				102,523,299
Financial assets held under resale agreements				
Carrying amount under IAS 39	2,443,685			
Remeasurement: ECL allowance			(1,638)	
Carrying amount under IFRS 9				2,442,047

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 The impact of applying IFRS 9 (Continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
Amortised cost (Continued)				
Financial assets – held-to-maturity investments				
Carrying amount under IAS 39	72,444,185			
Less: to amortised cost (IFRS 9)		(72,444,185)		
Carrying amount under IFRS 9				–
Financial assets – investments classified as receivables				
Carrying amount under IAS 39	78,743,066			
Less: to amortised cost (IFRS 9)		(75,816,841)		
Less: to FVPL (IFRS 9)		(2,926,225)		
Carrying amount under IFRS 9				–
Loans and advances to customers				
Carrying amount under IAS 39	324,109,622			
Less: to FVOCI (IFRS 9)		(9,722,388)		
Remeasurement: ECL allowance			194,523	
Carrying amount under IFRS 9				314,581,757

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 The impact of applying IFRS 9 (Continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
Amortised cost (Continued)				
Financial assets – amortised cost				
Carrying amount under IAS 39	–			
Addition: from held-to-maturity investments (IAS 39)		72,444,185		
Remeasurement: ECL allowance			225,109	
Addition: from investments classified as receivables (IAS 39)		75,816,841		
Remeasurement: ECL allowance			294,919	
Addition: from available-for-sale financial assets (IAS 39)		11,707,893		
Remeasurement: from fair value to amortised cost			95,436	
Remeasurement: ECL allowance			(28,874)	
Carrying amount under IFRS 9				160,555,509
Total financial assets measured at amortised cost	625,762,315	(940,720)	611,168	625,432,763

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 The impact of applying IFRS 9 (Continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
Fair value through profit or loss				
Financial investments – FVPL				
Carrying amount under IAS 39	519,234			
Addition: from available-for-sale financial assets (IAS 39)		145,880,247		
Remeasurement: fair value remeasurement			(199,988)	
Addition: from investments classified as receivables (IAS 39)		2,926,225		
Remeasurement: from amortised cost to fair value			(116,721)	
Carrying amount under IFRS 9				149,008,997
Derivative financial assets				
Carrying amount under IAS 39	169,629			
Carrying amount under IFRS 9				169,629
Total financial assets measured at FVPL	688,863	148,806,472	(316,709)	149,178,626

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 The impact of applying IFRS 9 (Continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
Fair value through other comprehensive income				
Financial investments — FVOCI				
Carrying amount under IAS 39	—			
Addition: from available-for-sale financial assets (IAS 39)		8,192,476		
Remeasurement: fair value remeasurement			(32,121)	
Carrying amount under IFRS 9				8,160,355
Financial investments — available-for-sale financial assets				
Carrying amount under IAS 39	165,780,616			
Less: to amortised cost (IFRS 9)		(11,707,893)		
Less: to FVPL (IFRS 9)		(145,880,247)		
Less: to FVOCI (equity instrument)		(8,192,476)		
Carrying amount under IFRS 9				—

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 The impact of applying IFRS 9 (Continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
Fair value through other comprehensive income (Continued)				
Loans and advances to customers				
Carrying amount under IAS 39	–			
Addition: from amortised cost (IAS 39)		9,722,388		
Remeasurement: from amortised cost to fair value			298,491	
Carrying amount under IFRS 9				10,020,879
Total financial assets measured at FVOCI	<u>165,780,616</u>	<u>(147,865,752)</u>	<u>266,370</u>	<u>18,181,234</u>

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Group:

(i) Investments reclassified from investments classified as receivables to FVPL

The Group holds a portfolio of debt instruments with subordinated terms and writing-down natures that failed to meet the “SPPI” requirement under IFRS 9. As a result, these instruments, were classified as FVPL from the date of initial application of IFRS 9.

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 The impact of applying IFRS 9 (Continued)

(b) *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)*

(ii) Investments reclassified from available-for-sale financial assets to FVPL

The Group's holdings of other banks' wealth management products with floating returns were unable to pass the SPPI testing due to the uncertainty of cash flows, so they were reclassified to financial assets at FVPL from the date of initial application of IFRS 9.

The Group holds a portfolio of subordinated asset-backed securities. These investments could not pass the SPPI testing in that they were under greater exposure to credit risk than the underlying asset pool as a whole. As a result, this portfolio of securities were reclassified to FVPL from the date of initial application of IFRS 9.

(iii) Investments reclassified from available-for-sale financial assets to financial assets measured at amortised cost

After assessing its business model for securities within the Group's liquidity portfolio, which were mostly held to collect the contractual cash flows and sell, the Group identified certain securities which were managed separately and for which the past practice had been (and the Group's intention remains) to hold to collect the contractual cash flows. Consequently, these securities were reclassified to financial assets at amortised cost from the date of initial application of IFRS 9.

As at 31 December 2018, the fair value of financial assets reclassified from available-for-sale financial assets to financial assets measured at amortized cost is RMB3.92 billion, if the financial assets had not been reclassified, the changes in fair value in the current year would not have a significant impact on the consolidated financial statements.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 The impact of applying IFRS 9 (Continued)

(b) *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)*

(iv) Discounted bills

Discounted bills held by the Group, with a business model to collect contractual cash flows and sell, were reclassified from loans and advance to customers to financial assets measured at FVOCI.

(v) Equity investments

The Group elected to irrevocably designate investments in non-trading equity securities at FVOCI as permitted under IFRS 9. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of. These securities were previously classified as available-for-sale financial assets.

(vi) Others

Parts of financial assets classifications under IAS 39 held by the Group are not applicable anymore and reclassified to new categories under IFRS 9. However, the measurement method remains: (i) previous available-for-sale financial assets are currently classified as FVOCI; and (ii) previous held-to-maturity investments and investments classified as receivables are currently measured at amortised cost.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.2 The impact of applying IFRS 9 (Continued)

(c) Reconciliation of impairment allowance balances from IAS 39 to IFRS 9

Measurement category	Allowance under IAS 39/Provision under IAS 37	Reclassifications	Remeasurements	Allowance under IFRS 9
Loans and advances to customers				
– Loans and advances to customers excluding bills	13,916,582	–	(194,523)	13,722,059
– Discounted bills measured at amortised cost/FVOCI	320,364	–	(306,074)	14,290
Financial assets held under resale agreements	–	–	1,638	1,638
Deposits with banks and other financial institutions	–	–	50,228	50,228
Placements with banks and other financial institutions	–	–	118,079	118,079
Held-to-maturity investments	315,981	(315,981)	–	–
Investments classified as receivables	1,868,301	(1,868,301)	–	–
Available-for-sale investments	–	–	–	–
Financial assets measured at amortised cost	–	2,184,282	(491,154)	1,693,128
Financial asset measured at FVOCI	–	–	40,093	40,093
Off-balance sheet business				
– Loan commitments	–	–	407,823	407,823
Total	16,421,228	–	(373,890)	16,047,338

Due to the impact of IFRS 9, the retained earnings and the investment revaluation reserve of the Group were increased by RMB34 million and RMB72 million, respectively. The impact on deferred tax of the Group is disclosed in Note 35.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Accounting policies applied in 2017

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

(a) Financial assets

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

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

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

A financial asset is classified as held for trading if:

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Accounting policies applied in 2017 (Continued)

(a) Financial assets (Continued)

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

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

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

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the year in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

(ii) Held-to-maturity investments

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

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

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment (see the accounting policy in respect of impairment losses on financial assets below).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Accounting policies applied in 2017 (Continued)

(a) Financial assets (Continued)

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment losses on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period (see the accounting policy in respect of impairment losses on financial assets below).

(iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

(v) Impairment of financial assets

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

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Accounting policies applied in 2017 (Continued)

(a) Financial assets (Continued)

(v) Impairment of financial assets (Continued)

Impairment of financial assets carried at amortised cost

For all other financial assets, the objective evidence of impairment could include:

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

The Group firstly assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Accounting policies applied in 2017 (Continued)

(a) Financial assets (Continued)

(v) Impairment of financial assets (Continued)

Impairment of financial assets carried at amortised cost (Continued)

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

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

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

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

Impairment of available-for-sale financial assets

A decline in the fair value of an available-for-sale financial asset is recognised directly in other comprehensive income and accumulated in the investment revaluation reserve. Where there is objective evidence that asset is impaired, the cumulative loss that had been recognised directly in the investment revaluation reserve is reclassified to profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Accounting policies applied in 2017 (Continued)

(a) Financial assets (Continued)

(v) Impairment of financial assets (Continued)

Impairment of available-for-sale financial assets (Continued)

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

For available-for-sale financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed in subsequent periods.

(b) Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified as either financial liabilities or as equity according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

(i) Financial liabilities at FVTPL

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

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

Financial liabilities at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognised directly in profit or loss in the year in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Accounting policies applied in 2017 (Continued)

(b) Financial liabilities and equity instruments (Continued)

(ii) Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost, using the effective interest method.

(iii) Equity instruments

Equity instruments issued by the Group for cash are recorded at the proceeds received, net of direct issue costs.

(c) Derivative financial instruments

Derivative financial instruments, including foreign currency forward, foreign exchange swap, etc. are carried at their fair value when initially being recognised.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year.

(d) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Accounting policies applied in 2017 (Continued)

(e) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(f) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 “Revenue”.

(g) Repurchase agreements and agreements to resell

Financial assets sold subject to repurchase agreements continue to be recognised, and are recorded as “available-for-sale financial assets”, “debt securities classified as receivables”, “held-to-maturity investments” or “loans and advances to customers” as appropriate. The corresponding liability is included in “financial assets sold under repurchase agreements”. Financial assets held under agreements to resell are recorded as “financial assets held under resale agreements”.

The difference between purchase and sales price is recognised as interest expense or income in profit or loss over the life of the agreements using the effective interest method.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

4. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.3 Accounting policies applied in 2017 (Continued)

(2) Interest income and interest expense

Interest income and expense for all interest-bearing financial instruments are recognised within “interest income” and “interest expense” in profit or loss using the effective interest method.

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(3) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. For those services that it provides for a period of time, fee and commission income is recognised over that period. For other services, fee and commission is recognised when the transactions are completed.

5. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Group’s accounting policies, which are described in Note 3, the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that period, or in the year of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and key estimation uncertainty that the directors of the Bank have made in the process of applying the Group’s accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements and/or in the next twelve months.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

5. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

5.1 Measurement of expected credit loss allowance

The measurement of the ECL allowance for the investment in financial assets and debt instruments measured at amortised cost and FVOCI is an area that requires the use of complex models and critical assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 49.

A number of critical judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of financial instruments with similar credit risk characteristics for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 49.

5.2 Scope of consolidation

The Group has taken into consideration all facts and circumstances in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of the investor's returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

5. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

5.3 Fair value of financial instruments

The directors of the Bank use the valuation technique for financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis or other valuation methods as appropriate. To the extent practical, models use only observable data, however areas such as the credit risk of the Group and counterparties, volatilities and correlations require the Group to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

5.4 Supplementary retirement benefit and early retirement benefit obligation

The Group recognises liabilities in connection with retirement benefits of employees using the projected unit credit method based on various assumptions and judgements, including the discount rate and average medical expense increase rate for early retirement and other factors. Actual results may differ from the result of the projected amount. Any difference between the actual result or changes in assumptions and judgements may affect the amount of other comprehensive income for supplementary retirement benefit obligation and expense recognised in profit or loss for early retirement benefit obligation, and the corresponding liabilities.

5.5 Taxes

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the year during which such a determination is made.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

6. NET INTEREST INCOME

	2018	2017
Interest income		
Loans and advances to customers	19,316,363	16,776,837
Including: Corporate loans and advances	10,784,532	10,069,889
Personal loans and advances	7,851,805	6,251,109
Discounted bills	680,026	455,839
Financial investments		
Financial assets measured at amortised cost	10,275,032	N/A
Financial assets measured at fair value through other comprehensive income	765,490	N/A
Financial assets measured at fair value through profit or loss	—	131,686
Available-for-sale financial assets	N/A	6,127,978
Investments classified as receivables	N/A	4,880,996
Held-to-maturity investments	N/A	2,930,194
Placements with banks and other financial institutions	6,267,397	4,980,795
Balances with central bank	1,270,047	1,356,327
Deposits with banks and other financial institutions	1,208,570	1,712,790
Financial assets held under resale agreements	617,084	390,805
Subtotal	39,719,983	39,288,408
Interest expense		
Deposits from customers	(10,214,681)	(8,849,564)
Debt securities issued	(4,872,694)	(3,989,308)
Deposits from banks and other financial institutions	(2,084,143)	(2,630,347)
Borrowings from central bank	(1,009,560)	(929,603)
Placements from banks and other financial institutions	(1,098,927)	(911,290)
Financial assets sold under repurchase agreements	(426,218)	(477,566)
Subtotal	(19,706,223)	(17,787,678)
Net interest income	20,013,921	21,500,730
Included: interest income on impaired financial assets	57,550	71,265
Included in interest income		
Interest income on listed investments	8,536,683	5,617,063
Interest income on unlisted investments	2,503,839	8,453,791
Total	11,040,522	14,070,854

Listed investments include debt securities traded on the China Domestic Interbank Bond Market and stock exchanges.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

7. NET FEE AND COMMISSION INCOME

	2018	2017
Fee and commission income		
Wealth management fees	1,108,753	1,406,785
Agency and custodian service commissions	442,689	425,359
Bank card fees	264,313	332,995
Settlement and clearing fees	143,649	131,118
Collection and payment service fees	14,008	19,861
Others	229,666	138,136
Subtotal	2,203,078	2,454,254
Fee and commission expense		
Bank card fees	(72,874)	(49,464)
Settlement and clearing fees	(30,528)	(43,589)
Other service fees	(33,880)	(65,620)
Subtotal	(137,282)	(158,673)
Total	2,065,796	2,295,581

8. NET TRADING GAINS/ (LOSSES)

	2018	2017
Net gains/(losses) on financial assets measured at fair value through profit or loss	3,800,555	(29,755)
Others	6,714	(7,010)
Total	3,807,269	(36,765)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

9. OTHER OPERATING INCOME, NET

	2018	2017
Net foreign exchange gains	94,932	65,478
Government subsidies	62,992	87,473
Net gain on disposal of property and equipment	15,848	37,768
Penalty and compensation income	11,676	11,680
Dividends income	1,308	4,957
Net gain on disposal of foreclosed assets	158	556
Others, net	17,660	2,586
Total	204,574	210,498

10. OPERATING EXPENSES

	2018	2017
Staff costs (i)	5,268,533	5,480,105
General operating and administrative expenses	1,382,664	1,326,398
Depreciation and amortisation	750,594	805,725
Tax and surcharges	245,227	188,456
Auditor's remuneration	4,481	4,481
Others	513,631	524,380
Total	8,165,130	8,329,545

(i) Staff costs

	2018	2017
Salaries, bonuses and allowances	3,602,710	3,531,723
Social insurance	813,311	789,362
Housing funds	331,903	321,381
Staff welfare	251,338	145,152
Labour union fees and staff education expenses	124,281	121,727
Supplementary retirement benefits	118,300	566,710
Early retirement benefits	26,690	4,050
Total	5,268,533	5,480,105

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

11. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the directors' and supervisors' emoluments are as follows:

	2018			
		Paid basic salaries, bonuses, and benefits in kind	Contribution to pension schemes	
Name	Fees			Total
Executive directors				
Liu Jianzhong	—	703	93	796
Xie Wenhui	—	815	93	908
Zhang Peizong ⁽¹⁾	—	264	93	357
Non-executive directors				
Sun Lida	68	—	—	68
He Zhiming	75	—	—	75
Duan Xiaohua	90	—	—	90
Wen Honghai	90	—	—	90
Luo YuXing ⁽²⁾	90	—	—	90
Chen Xiaoyan	90	—	—	90
Independent non-executive directors				
Sun Leland Li Hsun	180	—	—	180
Yin Mengbo	180	—	—	180
Cao Guohua	180	—	—	180
Yuan Zengting	180	—	—	180
Zhang Qiaoyun ⁽³⁾	—	—	—	—
Song Qinghua	180	—	—	180
Supervisors				
Ni Yuemin	—	367	85	452
Zeng Jianwu	75	—	—	75
Zuo Ruilan	75	—	—	75
Wang Hong	120	—	—	120
Pan Like	120	—	—	120
Hu Shuchun	120	—	—	120
Zheng Yi	—	1,067	85	1,152
Zhu Yuzhou	—	955	85	1,040
Total	1,913	4,171	534	6,618

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

11. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Details of the directors' and supervisors' emoluments are as follows (Continued):

Name	2017			Total
	Fees	Paid basic salaries, bonuses, allowances and benefits in kind	Contribution to pension schemes	
Executive directors				
Liu Jianzhong	—	336	84	420
Xie Wenhui	—	336	84	420
Non-executive directors				
He Zhiming	60	—	—	60
Sun Lida	60	—	—	60
Chen Xiaoyan	60	—	—	60
Duan Xiaohua	60	—	—	60
Wen Honghai	60	—	—	60
Independent non-executive directors				
Sun Leland Li Hsun	120	—	—	120
Yin Mengbo	120	—	—	120
Yuan Zengting	120	—	—	120
Cao Guohua	120	—	—	120
Song Qinghua ⁽⁴⁾	40	—	—	40
Supervisors				
Ni Yuemin	—	336	84	420
Zeng Jianwu	50	—	—	50
Zuo Ruilan	50	—	—	50
Wang Hong	80	—	—	80
Hu Shuchun	80	—	—	80
Pan Like	80	—	—	80
Zheng Yi	—	1,367	84	1,451
Zhu Yuzhou	—	1,115	84	1,199
Total	1,160	3,490	420	5,070

- (1) On 25 December 2018, Mr. Zhang Peizong was appointed as an executive director of the Bank.
- (2) On 2 January 2018, Mr. Luo Yuxing was appointed as a non-executive director of the Bank.
- (3) On 25 December 2018, Mr. Zhang Qiaoyun was appointed as an independent non-executive director of the Bank.
- (4) On 14 September 2017, Mr. Song Qinghua was appointed as an independent non-executive director of the Bank.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

11. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

Details of the directors' and supervisors' emoluments are as follows (Continued):

The total compensation packages for the directors, supervisors and senior management are determined based on the performances.

In accordance with regulations authorised by relevant authorities in the PRC, the compensation package for certain directors and supervisors for the current year have not been finalised. Management of the Group believes that difference in emoluments will not have significant impact on the consolidated financial statements of the Group for the year ended 31 December 2018. The disclosed amount of remuneration is the amount paid in current year, including the emolument of the previous year deferred to the current year. The amount of final remuneration will be announced after approval.

Five highest paid individuals

Of the five individuals with the highest emoluments, none of them are directors or supervisors.

The emoluments payable to the five individuals whose emoluments were the highest in the Group during the year are as follows:

	2018	2017
Basic salaries, bonuses and allowances	8,893	9,105
Contributions to pension schemes	388	421
Total	9,281	9,526

Emoluments of the individuals were within the following bands:

	Number of individuals	
	2018	2017
RMB1,000,001 – RMB2,000,000	4	3
RMB2,000,001 – RMB3,000,000	1	2

During the years ended 31 December 2018 and 2017, no emolument was paid by the Group to any of the directors, supervisors or the five highest paid individuals (including directors, supervisors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors or supervisors waived any emoluments during the years ended 31 December 2018 and 2017.

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

12. IMPAIRMENT LOSSES ON ASSETS

	2018	2017
Expected credit losses		
Loans and advances to customers	5,809,036	3,284,444
Financial investments:		
Financial assets measured at amortised cost	538,926	N/A
Financial assets measured at fair value through other comprehensive income	12,060	N/A
Investments classified as receivables	N/A	481,199
Held-to-maturity investments	N/A	(55,309)
Placements with banks and other financial institutions	13,302	—
Financial assets held under resale agreements	3,483	—
Deposits with banks and other financial institutions	(37,067)	—
Loan commitments	(166,407)	—
Impairment losses on other financial assets	16,181	—
Impairment losses on other assets	6,390	268
Total	6,195,904	3,710,602

13. INCOME TAX EXPENSE

(1) Income tax expense

	2018	2017
Income tax expense comprises:		
Current income tax		
– PRC Enterprise Income Tax	3,870,801	3,433,021
Deferred tax (Note 35)	(1,262,918)	(481,650)
Total	2,607,883	2,951,371

PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profit for the current and prior periods.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

13. INCOME TAX EXPENSE (Continued)

(2) Reconciliation between income tax expense and accounting profit:

The tax charges for the year ended 31 December 2018 and 2017 can be reconciled to the profit before tax per the consolidated statement of income as follows:

	NOTE	2018	2017
Profit before tax		11,771,920	11,959,725
Tax calculated at applicable statutory tax rate of 25%		2,942,980	2,989,931
Difference of income tax calculated at subsidiaries' applicable statutory tax rate of 15%		(29,096)	(32,420)
Tax effect of expenses not deductible for tax purpose		41,649	159,768
Tax effect of income not taxable for tax purpose	(i)	(352,975)	(178,603)
Unrecognised deferred tax assets relating deductible tax losses and others		5,325	12,695
Income tax expense		2,607,883	2,951,371

- (i) Non-taxable income primarily includes interest income from PRC government bonds and local government bonds.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is as follows:

	2018	2017
Earnings:		
Profit for the year attributable to shareholders of the Bank	9,058,191	8,935,973
Numbers of shares:		
Weighted average number of shares in issue (thousand)	10,000,000	9,493,699
Basic and diluted earnings per share (RMB Yuan)	0.91	0.94

There were no potential dilutive ordinary shares outstanding during the current and prior year. Accordingly, diluted earnings per share were same as basic earnings per share.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

15. DIVIDENDS

	2018	2017
Dividends recognised as distribution during the year		
Year 2017 – RMB20 cents per share	2,000,000	–
Year 2016 – RMB20 cents per share	–	1,860,000

A dividend of RMB20 cents per share (tax inclusive) in respect of the year ended 31 December 2018 with a total of RMB2,000 million has been proposed by the Board of Directors on 26 March 2019 and to be approved by the shareholders in the 2018 annual general meeting.

A dividend of RMB20 cents per share (tax inclusive) in respect of the year ended 31 December 2017, with a total of RMB2,000 million was approved in the 2017 annual general meeting on 27 April 2018.

16. CASH AND BALANCES WITH CENTRAL BANK

	NOTE	As at 31 December 2018	As at 31 December 2017
Cash		3,253,449	3,273,111
Mandatory reserve deposits with central bank	(1)	67,023,668	83,023,064
Surplus reserve deposits with central bank	(2)	13,254,423	8,946,135
Other deposits with central bank	(3)	2,403,636	1,769,775
Total		85,935,176	97,012,085

- (1) The Group places mandatory reserve deposits with the People's Bank of China (the "PBOC"). This includes RMB reserve deposits and foreign currency reserve deposits. These mandatory reserve funds are not available for the Group's daily operations.

As at 31 December 2018, mandatory reserve deposits with the PBOC were calculated at 11% (31 December 2017: 14.5%) of eligible RMB deposits for the Bank, while for the subsidiaries were at 9%, 8% or 7% (31 December 2017: 9%, 8% or 7%); and 5% for foreign currency deposits from customers (31 December 2017: 5%). The foreign currency reserve deposits placed with the PBOC are non-interest bearing.

- (2) The surplus reserve deposits maintained with the PBOC are mainly for the purpose of clearing and position transferring.
- (3) Other deposits with central bank mainly represents the required fiscal deposits placed with the PBOC, which are non-interest bearing.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

17. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2018	As at 31 December 2017
Deposits with:		
Domestic banks and other financial institutions	31,772,031	44,493,416
Overseas banks	449,275	886,963
Gross amount	32,221,306	45,380,379
Impairment allowances	(13,161)	—
Carrying amount	32,208,145	45,380,379

18. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2018	As at 31 December 2017
Placements with:		
Other domestic financial institutions	98,909,978	81,918,814
Domestic banks	39,764,946	20,722,564
Gross amount	138,674,924	102,641,378
Impairment allowances	(131,381)	—
Carrying amount	138,543,543	102,641,378

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

19. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	As at 31 December 2018			As at 31 December 2017		
	Contract/ Nominal amount	Assets	Liabilities	Contract/ Nominal amount	Assets	Liabilities
Currency forward	7,649,663	92,975	(83,661)	6,052,887	169,629	(168,326)
Foreign exchange swap	378,927	1,015	–	392,052	–	(8,263)
Interest swap	4,256,600	–	(246)	–	–	–
Total	12,285,190	93,990	(83,907)	6,444,939	169,629	(176,589)

20. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	As at 31 December 2018	As at 31 December 2017
Analysed by collateral type:		
Debt securities	6,005,854	2,443,685
Impairment allowances	(5,121)	–
Carrying amount	6,000,733	2,443,685

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

21. LOANS AND ADVANCES TO CUSTOMERS

(1) Analysis of loans and advances to customers

	As at 31 December 2018	As at 31 December 2017
Gross loans and advances measured at amortised cost	360,943,002	338,346,567
Less: allowance for impairment losses	(17,109,505)	(14,236,945)
Carrying amount of loans and advances measured at amortised cost	343,833,497	324,109,622
Carrying amount of loans and advances measured at fair value through other comprehensive income	20,192,651	N/A
Net loans and advances to customers	364,026,148	324,109,622

(2) Carrying amount of loans and advances measured at amortised cost

	As at 31 December 2018	As at 31 December 2017
Gross loans and advances to customers measured at amortised cost	360,943,002	338,346,567
Less: allowance for impairment losses		
– stage 1	(6,225,467)	N/A
– stage 2	(5,113,766)	N/A
– stage 3	(5,770,272)	N/A
– collective assessment	N/A	(13,047,315)
– individual assessment	N/A	(1,189,630)
Carrying amount of loans and advances measured at amortised cost	343,833,497	324,109,622

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(3) Analysed by assessment method of allowances for impairment losses

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Gross loans and advances measured at amortised cost	316,347,777	35,778,870	8,816,355	360,943,002
Less: allowance for impairment losses	<u>(6,225,467)</u>	<u>(5,113,766)</u>	<u>(5,770,272)</u>	<u>(17,109,505)</u>
Carrying amount of loans and advances measured at amortised cost	<u>310,122,310</u>	<u>30,665,104</u>	<u>3,046,083</u>	<u>343,833,497</u>
Carrying amount of loans and advances measured at FVOCI	<u>20,192,651</u>	<u>—</u>	<u>—</u>	<u>20,192,651</u>
Impairment losses of loans and advances measured at FVOCI	<u>(23,864)</u>	<u>—</u>	<u>—</u>	<u>(23,864)</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(3) Analysed by assessment method of allowances for impairment losses (Continued)

	Loans and advances for which allowance is collectively assessed ⁽ⁱ⁾	Identified impaired loans ⁽ⁱⁱ⁾		Sub-total	Total
		For which allowance is collectively assessed	For which allowance is individually assessed		
As at 31 December 2017					
Gross loans and advances to customers	335,045,164	1,234,544	2,066,859	3,301,403	338,346,567
Less: allowance for impairment losses	(12,045,644)	(1,001,671)	(1,189,630)	(2,191,301)	(14,236,945)
Loans and advances to customers, net	<u>322,999,520</u>	<u>232,873</u>	<u>877,229</u>	<u>1,110,102</u>	<u>324,109,622</u>

- (i) Loans and advances for which allowance is collectively assessed consist of loans and advances which have not been specifically identified as impaired.
- (ii) Identified impaired loans and advances include loans for which objective evidence of impairment exists and which have been identified as impairment loss and assessed either individually or collectively.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(4) Movements of gross carrying amount on loans and advances to customers

Corporate loans and advances	For the year ended 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	172,811,872	36,937,107	5,003,505	214,752,484
Transfer:				
From stage 1 to stage 2	(21,416,553)	21,416,553	—	—
From stage 1 to stage 3	(2,413,702)	—	2,413,702	—
From stage 2 to stage 1	5,785,949	(5,785,949)	—	—
From stage 2 to stage 3	—	(3,612,445)	3,612,445	—
From stage 3 to stage 2	—	45,660	(45,660)	—
New financial assets originated or purchased	128,730,288	—	—	128,730,288
Derecognition and settlement	(97,941,344)	(14,661,057)	(1,477,804)	(114,080,205)
Write-offs and transfer out	—	—	(2,118,570)	(2,118,570)
Others	231,923	52,692	118,434	403,049
As at 31 December 2018	<u>185,788,433</u>	<u>34,392,561</u>	<u>7,506,052</u>	<u>227,687,046</u>

Personal loans and advances	For the year ended 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	110,363,732	1,818,487	1,369,113	113,551,332
Transfer:				
From stage 1 to stage 2	(1,236,852)	1,236,852	—	—
From stage 1 to stage 3	(826,868)	—	826,868	—
From stage 2 to stage 1	266,806	(266,806)	—	—
From stage 2 to stage 3	—	(423,958)	423,958	—
From stage 3 to stage 1	50,518	—	(50,518)	—
From stage 3 to stage 2	—	11,859	(11,859)	—
New financial assets originated or purchased	75,762,106	—	—	75,762,106
Derecognition and settlement	(53,931,248)	(991,737)	(379,843)	(55,302,828)
Write-offs and transfer out	—	—	(867,839)	(867,839)
Others	111,150	1,612	423	113,185
As at 31 December 2018	<u>130,559,344</u>	<u>1,386,309</u>	<u>1,310,303</u>	<u>133,255,956</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(5) Movements of allowance for impairment losses on loans and advances to customers

Corporate loans and advances	For the year ended 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	2,722,234	4,471,975	3,371,886	10,566,095
Transfer:				
From stage 1 to stage 2	(1,664,653)	1,664,653	—	—
From stage 1 to stage 3	(517,088)	—	517,088	—
From stage 2 to stage 1	724,478	(724,478)	—	—
From stage 2 to stage 3	—	(679,410)	679,410	—
From stage 3 to stage 2	—	26,058	(26,058)	—
ECL changes arisen from stage transfer	(627,381)	1,160,497	2,741,163	3,274,279
New financial assets originated or purchased	4,209,093	—	—	4,209,093
Derecognition and settlement	(1,181,692)	(830,525)	(502,534)	(2,514,751)
Remeasurement	(112,094)	(304,312)	76,764	(339,642)
Write-offs and others	—	—	(2,118,570)	(2,118,570)
As at 31 December 2018	<u>3,552,897</u>	<u>4,784,458</u>	<u>4,739,149</u>	<u>13,076,504</u>

Personal loans and advances	For the year ended 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	1,652,015	394,483	1,109,466	3,155,964
Transfer:				
From stage 1 to stage 2	(131,857)	131,857	—	—
From stage 1 to stage 3	(124,884)	—	124,884	—
From stage 2 to stage 1	80,345	(80,345)	—	—
From stage 2 to stage 3	—	(103,619)	103,619	—
From stage 3 to stage 1	39,504	—	(39,504)	—
From stage 3 to stage 2	—	8,871	(8,871)	—
ECL changes arisen from stage transfer	(114,184)	134,085	716,385	736,286
New financial assets originated or purchased	1,802,603	—	—	1,802,603
Derecognition and settlement	(746,518)	(158,510)	(192,727)	(1,097,755)
Remeasurement	215,546	2,486	85,710	303,742
Write-offs and others	—	—	(867,839)	(867,839)
As at 31 December 2018	<u>2,672,570</u>	<u>329,308</u>	<u>1,031,123</u>	<u>4,033,001</u>

As at December 31, 2018, all of the Group's loans and advances to customers measured at fair value through other comprehensive income were in stage 1 and there was no movement among ECL stages.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(5) Movements of allowance for impairment losses on loans and advances to customers (Continued)

	For the year ended 31 December 2017		
	Individually assessed allowance	Collectively assessed allowance	Total
As at 1 January 2017	768,156	11,536,868	12,305,024
Charge for the year	1,444,693	7,988,026	9,432,719
Reversal for the year	(83,920)	(6,064,355)	(6,148,275)
Written-off and transferred-out for the year	(986,561)	(610,086)	(1,596,647)
Reversal for recovering written-off loans and advances	95,798	219,591	315,389
Unwinding of discount	(48,536)	(22,729)	(71,265)
As at 31 December 2017	<u>1,189,630</u>	<u>13,047,315</u>	<u>14,236,945</u>

22. FINANCIAL INVESTMENTS

(1) Analysis by measurement categories

		As at 31 December 2018	As at 31 December 2017
Financial assets measured at FVPL	(a)	15,094,518	519,234
Financial assets measured at amortised cost	(b)	289,564,720	N/A
Financial assets measured at FVOCI	(c)	7,713,114	N/A
– Debt instruments		7,096,739	N/A
– Equity instruments		616,375	N/A
Held-to-maturity investments		N/A	72,444,185
Available-for-sale financial assets		N/A	165,780,616
Investments classified as receivables		<u>N/A</u>	<u>78,743,066</u>
Total		<u>312,372,352</u>	<u>317,487,101</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

22. FINANCIAL INVESTMENTS (Continued)

(1) Analysis by measurement categories (Continued)

(a) Financial assets measured at fair value through profit or loss

Analysis by nature

		As at 31 December 2018	As at 31 December 2017
Debt securities	(i)	5,276,083	519,234
Investment in wealth management products	(ii)	<u>9,818,435</u>	<u>—</u>
Total		<u>15,094,518</u>	<u>519,234</u>
Analysed as:			
Listed outside Hong Kong		5,276,083	519,234
Unlisted		<u>9,818,435</u>	<u>—</u>
Total		<u>15,094,518</u>	<u>519,234</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

22. FINANCIAL INVESTMENTS (Continued)

(1) Analysis by measurement categories (Continued)

(a) Financial assets measured at fair value through profit or loss (Continued)

Analysis by type of issuers

(i) Debt securities

	As at 31 December 2018	As at 31 December 2017
Debt securities issued by:		
Public sector and quasi-governments	404,062	289,411
Financial institutions	4,265,135	–
Corporations	606,886	90,014
Interbank deposit certificates	–	139,809
Total	<u>5,276,083</u>	<u>519,234</u>

Debt securities investments measured at fair value through profit or loss are all traded on the China Domestic Interbank Bond Market.

(ii) Investment in wealth management products (WMPs)

	As at 31 December 2018	As at 31 December 2017
WMPs issued by:		
Banks	<u>9,818,435</u>	<u>–</u>

During the year ended 31 December 2018, there were no significant gains or losses incurred due to changes in credit risk in regard to financial investments in WMPs within the Group, which are measured at FVPL.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

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22. FINANCIAL INVESTMENTS (Continued)

(1) Analysis by measurement categories (Continued)

(b) Financial assets at amortised cost

	As at 31 December 2018	As at 31 December 2017
Government bonds	82,403,604	N/A
Public sector and quasi-government bonds	38,686,150	N/A
Financial institutions bonds	11,975,092	N/A
Corporate bonds	50,906,424	N/A
Interbank deposit certificates	67,159,384	N/A
Trust plans	33,588,976	N/A
Others	7,026,714	N/A
Gross balances	291,746,344	N/A
Allowances for impairment losses		
– Stage 1	(1,694,617)	N/A
– Stage 2	(487,007)	N/A
Net balances	289,564,720	N/A
Analysed as:		
Listed outside Hong Kong	250,918,732	N/A
Unlisted	38,645,988	N/A
Total	289,564,720	N/A

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

22. FINANCIAL INVESTMENTS (Continued)

(1) Analysed by measurement categories (Continued)

(c) Financial investments measured at fair value through other comprehensive income

As at 1 January 2018, the Group designated investments set out below as equity securities measured at FVOCI because the Group's purpose to hold them is not to obtain investment income.

	As at 31 December 2018	As at 31 December 2017
Debt instruments:		
Corporate bonds	6,238,482	N/A
Others	858,257	N/A
Subtotal	7,096,739	N/A
Equity instruments:		
Banks and other financial institutions	55,690	N/A
Other corporations	560,685	N/A
Subtotal	616,375	N/A
Total	7,713,114	N/A
Analysed as:		
Listed outside Hong Kong (i)	6,814,325	N/A
Listed in Hong Kong	32,532	N/A
Unlisted	866,257	N/A
Total	7,713,114	N/A

- (i) Financial assets measured at FVOCI included in "Listed outside Hong Kong" are traded in the China Domestic Interbank Bond Market; equity instruments presented in "Listed outside Hong Kong" are listed in mainland China.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

22. FINANCIAL INVESTMENTS (Continued)

(2) Analysed by principles

Financial assets measured at amortised cost

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	159,582,210	2,507,881	158,546	162,248,637
Transfer:				
From stage 1 to stage 2	(2,580,835)	2,580,835	—	—
From stage 2 to stage 1	2,335,600	(2,335,600)	—	—
New financial assets originated or purchased	164,591,915	—	—	164,591,915
Derecognition and settlement	(38,543,023)	(172,281)	(108,116)	(38,823,420)
Write-offs and transfer out	—	—	(50,430)	(50,430)
Others	3,848,633	(68,991)	—	3,779,642
As at 31 December 2018	<u>289,234,500</u>	<u>2,511,844</u>	<u>—</u>	<u>291,746,344</u>

Financial assets measured at fair value through other comprehensive income-debt instruments

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	7,463,955	—	—	7,463,955
Transfer:				
From stage 1 to stage 2	(34,150)	34,150	—	—
New financial assets originated or purchased	1,768,075	17,278	—	1,785,353
Derecognition and settlement	(1,170,402)	—	—	(1,170,402)
Others	(983,547)	1,380	—	(982,167)
As at 31 December 2018	<u>7,043,931</u>	<u>52,808</u>	<u>—</u>	<u>7,096,739</u>

Notes to the Consolidated Financial Statements (Continued)

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22. FINANCIAL INVESTMENTS (Continued)

(3) Analysed by assessment method of allowances for impairment losses

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Financial assets measured at amortised cost	289,234,500	2,511,844	–	291,746,344
Less: allowances for impairment losses	<u>(1,694,617)</u>	<u>(487,007)</u>	<u>–</u>	<u>(2,181,624)</u>
Carrying amount of financial assets measured at amortised cost	<u>287,539,883</u>	<u>2,024,837</u>	<u>–</u>	<u>289,564,720</u>
Carrying amount of financial assets measured at FVOCI	<u>7,043,931</u>	<u>52,808</u>	<u>–</u>	<u>7,096,739</u>
Carrying amount of financial investments which recognised impairment losses	<u>294,583,814</u>	<u>2,077,645</u>	<u>–</u>	<u>296,661,459</u>
Allowance for impairment losses of financial assets measured at FVOCI	<u>(51,596)</u>	<u>(557)</u>	<u>–</u>	<u>(52,153)</u>

Notes to the Consolidated Financial Statements (Continued)

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22. FINANCIAL INVESTMENTS (Continued)

(4) Analysed by movements of allowances for impairment losses

Financial assets measured at amortised cost

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	1,567,643	18,352	107,133	1,693,128
Transfer:				
From stage 1 to stage 2	(34,126)	34,126	—	—
From stage 2 to stage 1	17,943	(17,943)	—	—
ECL changes arisen from stage transfer	(15,658)	452,881		437,223
New financial assets originated or purchased	525,819	—	—	525,819
Derecognition and settlement	(583,702)	(409)	(82,925)	(667,036)
Remeasurement	216,698	—	26,222	242,920
Write-offs and transfer out	—	—	(50,430)	(50,430)
As at 31 December 2018	<u>1,694,617</u>	<u>487,007</u>	<u>—</u>	<u>2,181,624</u>

Financial assets measured at fair value through other comprehensive income

	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	40,093	—	—	40,093
Transfer:				
From stage 1 to stage 2	(81)	81	—	—
ECL changes arisen from stage transfer	—	453	—	453
New financial assets originated or purchased	9,394	23	—	9,417
Derecognition and settlement	(2,848)	—	—	(2,848)
Remeasurement	<u>5,038</u>	<u>—</u>	<u>—</u>	<u>5,038</u>
As at 31 December 2018	<u>51,596</u>	<u>557</u>	<u>—</u>	<u>52,153</u>

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

22. FINANCIAL INVESTMENTS (Continued)

(5) Available-for-sale financial assets

		As at 31 December 2018	As at 31 December 2017
Debt Instruments:			
Government bonds		N/A	60,740
Public sector and quasi- government bonds		N/A	284,509
Financial institution bonds		N/A	56,663
Corporate bonds		N/A	10,775,228
Trust and asset management plans		N/A	5,229,743
WMPs issued by other banks		N/A	147,663,128
Others		N/A	1,014,205
Subtotal		N/A	165,084,216
Equity instruments			
At cost	(i)	N/A	8,000
At fair value		N/A	688,400
Subtotal		N/A	696,400
Total		N/A	165,780,616
Analysed as:			
Listed outside Hong Kong	(ii)	N/A	11,822,427
Listed in Hong Kong		N/A	43,113
Unlisted		N/A	153,915,076
Total		N/A	165,780,616

(i) The unlisted equity securities are measured at cost because their fair values cannot be reliably measured.

(ii) All available-for-sale debt securities traded on the China Domestic Interbank Bond Market are included in "Listed outside Hong Kong".

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(Amounts in thousands of Renminbi, unless otherwise stated)

22. FINANCIAL INVESTMENTS (Continued)

(6) Held-to-maturity investments

	As at 31 December 2018	As at 31 December 2017
Debt securities issued by:		
Government	N/A	25,530,137
Public sector and quasi-governments	N/A	24,304,317
Financial institutions	N/A	5,910,919
Corporations	N/A	15,500,922
Interbank deposit certificates	N/A	1,513,871
Subtotal	N/A	72,760,166
Less:		
Collectively assessed allowance for impairment losses	N/A	(285,981)
Individually assessed allowance for impairment losses	N/A	(30,000)
Total	N/A	72,444,185

Held-to-maturity investments are mainly traded in the China Domestic Interbank Bond Market.

Movement in allowance for impairment losses on held-to-maturity investments

	Collectively assessed	Individually assessed	Total
As at 1 January 2017	356,290	15,000	371,290
Charge/(Reversal) for the year	(70,309)	15,000	(55,309)
As at 31 December 2017	285,981	30,000	315,981

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For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

22. FINANCIAL INVESTMENTS (Continued)

(7) Investments classified as receivables

		As at 31 December 2018	As at 31 December 2017
Government bonds		N/A	6,199,000
Financial institution bonds		N/A	2,926,225
Corporate bonds		N/A	24,561,095
Trust and asset management plans	(i)	N/A	46,425,270
Others		N/A	499,777
Subtotal		N/A	80,611,367
Less: collectively assessed allowance for impairment losses		N/A	(1,837,449)
Individually assessed allowance for impairment losses		N/A	(30,852)
Total		N/A	78,743,066
Analysed as:			
Listed outside Hong Kong	(ii)	N/A	33,195,319
Unlisted		N/A	45,547,747
Total		N/A	78,743,066

- (i) Trust and asset management plans are non-callable before maturity with fixed interest rates and not quoted in an active market.
- (ii) Investments classified as receivables included bonds with fixed or determinable payments that are not quoted in an active market. They are traded in the China Domestic Interbank Bond Market and are presented in "Listed outside Hong Kong".

Notes to the Consolidated Financial Statements (Continued)

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22. FINANCIAL INVESTMENTS (Continued)

(7) Investments classified as receivables (Continued)

Movement in allowance for impairment losses on Investment classified as receivables

	Collectively assessed	Individually assessed	Total
As at 1 January 2017	1,387,102	—	1,387,102
Charge for the year	450,347	30,852	481,199
As at 31 December 2017	1,837,449	30,852	1,868,301

23. SUBSIDIARIES

As at 31 December 2018, details of the Bank's subsidiaries are set out below:

Name of entity	Date of incorporation	Place of incorporation	Registered and paid-in capital (RMB, million)	Proportion of equity interest (%)	Proportion of voting power in the general meeting(%)	Principal activities
Jiangsu Zhangjiagang CQRC Village and Township Bank Co., Ltd.	23/04/2010	Jiangsu	200	58.50	58.50	Banking
Sichuan Dazhu CQRC Village and Township Bank Co., Ltd.	(i) 12/11/2010	Sichuan	100	81.00	81.00	Banking
Yunnan Dali CQRC Village and Township Bank Co., Ltd.	(i) 14/12/2010	Yunnan	200	90.00	90.00	Banking
Yunnan Xiangyun CQRC Village and Township Bank Co., Ltd.	(i) 04/12/2012	Yunnan	100	100.00	100.00	Banking
Yunnan Heqing CQRC Village and Township Bank Co., Ltd.	(i) 09/01/2013	Yunnan	100	81.00	81.00	Banking
Guangxi Luzhai CQRC Village and Township Bank Co., Ltd.	09/01/2013	Guangxi	100	90.00	90.00	Banking
Fujian Shaxian CQRC Village and Township Bank Co., Ltd.	04/02/2013	Fujian	100	93.00	93.00	Banking
Fujian Fu'an CQRC Village and Township Bank Co., Ltd.	(i) 05/02/2013	Fujian	200	85.00	85.00	Banking

Notes to the Consolidated Financial Statements (Continued)

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23. SUBSIDIARIES (Continued)

Name of entity	Date of incorporation	Place of incorporation	Registered and paid-in capital (RMB, million)	Proportion of equity interest (%)	Proportion of voting power in the general meeting(%)	Principal activities
Yunnan Shangri-La CQRC Village and Township Bank Co., Ltd.	23/04/2013	Yunnan	62	82.26	82.26	Banking
Fujian Pingtan CQRC Village and Township Bank Co., Ltd.	09/08/2013	Fujian	100	59.00	59.00	Banking
Fujian Shishi CQRC Village and Township Bank Co., Ltd.	02/09/2015	Fujian	200	51.00	51.00	Banking
Yunnan Xishan CQRC Village and Township Bank Co., Ltd.	05/01/2016	Yunnan	200	90.00	90.00	Banking
CQRC Financial Leasing Co., Ltd.	19/12/2014	Chongqing	2,500	68.00	68.00	Financial Leasing

- (i) For the year ended 31 December 2018, the Bank acquired additional interests from the non-controlling shareholders of its subsidiaries Sichuan Dazhu CQRC Village and Township Bank Co., Ltd., Yunnan Dali CQRC Village and Township Bank Co., Ltd., Yunnan Xiangyun CQRC Village and Township Bank Co., Ltd., Yunnan Heqing CQRC Village and Township Bank Co., Ltd., and Fujian Fu'an CQRC Village and Township Bank Co., Ltd., resulting in increases in long-term equity investments by RMB17,700 thousand, RMB98,280 thousand, RMB55,370 thousand, RMB32,100 thousand and RMB61,200 thousand, respectively. The proportion of equity interest and proportion of voting right in the board of directors increased by 30%, 39%, 49%, 30% and 30%, respectively and the equity premium or discount amount was charged to capital reserve.

For the year ended 31 December 2017, the Bank acquired additional interests from the non-controlling shareholders of its subsidiaries Jiangsu Zhangjiagang CQRC Village and Township Bank Co., Ltd., Guangxi Luzhai CQRC Village and Township Bank Co., Ltd., Fujian Shaxian CQRC Village and Township Bank Co., Ltd., Fujian Fu'an CQRC Village and Township Bank Co., Ltd., and Fujian Pingtan CQRC Village and Township Bank Co., Ltd., resulting in increases in long-term equity investments by RMB8,550 thousand, RMB38,610 thousand, RMB42,420 thousand, RMB6,069 thousand and RMB8,080 thousand, respectively. The proportion of equity interest and proportion of voting right in the board of directors increased by 7.5%, 39%, 42%, 4% and 8%, respectively and the equity premium or discount amount was charged to capital reserve.

All the 13 subsidiaries above were sponsored to establish by the Bank. As at 31 December 2018 and 31 December 2017, the amount of non-controlling interests of each subsidiary of the Bank was insignificant to the Group and hence not disclosed further.

There were no significant restrictions on the Bank's or its subsidiaries' ability to access or use the assets and settle the liabilities of the Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

24. PROPERTY AND EQUIPMENT

	Buildings	Electronic equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
Cost						
As at 1 January 2017	5,449,534	1,069,518	117,019	708,693	952,016	8,296,780
Additions	128,369	55,214	3,195	44,434	477,034	708,246
Transferred in	1,019,674	14,486	928	6,747	(1,041,835)	–
Transferred to other assets	–	–	–	–	(123,237)	(123,237)
Disposals	(60,799)	(72,813)	(8,504)	(14,585)	–	(156,701)
As at 31 December 2017	6,536,778	1,066,405	112,638	745,289	263,978	8,725,088
Additions	22,878	209,187	3,898	29,641	300,098	565,702
Transferred in	142,299	3,030	–	2,914	(148,243)	–
Transferred to other assets	–	–	–	–	(13,170)	(13,170)
Disposals	(19,629)	(37,829)	(8,031)	(17,582)	–	(83,071)
As at 31 December 2018	6,682,326	1,240,793	108,505	760,262	402,663	9,194,549
Accumulated depreciation						
As at 1 January 2017	(1,923,112)	(684,652)	(85,860)	(404,675)	–	(3,098,299)
Charge for the year	(489,965)	(131,986)	(10,644)	(107,618)	–	(740,213)
Disposals	46,713	52,334	4,641	10,703	–	114,391
As at 31 December 2017	(2,366,364)	(764,304)	(91,863)	(501,590)	–	(3,724,121)
Charge for the year	(464,483)	(127,250)	(8,892)	(95,863)	–	(696,488)
Disposals	11,751	35,026	5,358	15,518	–	67,653
As at 31 December 2018	(2,819,096)	(856,528)	(95,397)	(581,935)	–	(4,352,956)
Carrying amount						
As at 31 December 2018	3,863,230	384,265	13,108	178,327	402,663	4,841,593
As at 31 December 2017	4,170,414	302,101	20,775	243,699	263,978	5,000,967

According to the relevant laws and regulations, subsequent to the Group's transformation into a joint stock company, the legal title of properties previously held by the predecessor entities are to be transferred to the Group. As at 31 December 2018, the registration transfer process of certain properties has not been completed. Management believes that the incomplete registration transfer process does not affect the rights of the Bank as the legal successor to those assets.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

25. GOODWILL

	As at 31 December 2018	As at 31 December 2017
Cost and carrying amount	<u>440,129</u>	<u>440,129</u>

Particulars impairment testing on goodwill are disclosed in Note 26.

26. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, goodwill set out in Note 25 has been allocated to three individual cash generating units (CGUs), including corporate banking, personal banking and treasury operations. The carrying amounts of goodwill as at 31 December 2018 and 31 December 2017 allocated to these units are as follows:

	As at 31 December 2018	As at 31 December 2017
Corporate banking (Unit A)	234,934	234,934
Personal banking (Unit B)	108,019	108,019
Treasury operations (Unit C)	97,176	97,176
Total	<u>440,129</u>	<u>440,129</u>

During the years ended 31 December 2018 and 31 December 2017, the directors of the Bank determine that there is no impairment of any of its CGUs containing goodwill.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amount of corporate banking unit, personal banking unit and treasury operations unit has been determined based on calculation of a value in use. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 8.07% at 31 December 2018 (31 December 2017: 8.01%). The discount rate used reflects specific risks relating to the relevant CGUs. Cash flows beyond the five-year period are extrapolated using a 3% steady growth rate. This growth rate is based on the relevant domestic industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

27. OTHER ASSETS

		As at 31 December 2018	As at 31 December 2017
Interest receivable	(1)	26,807	6,364,823
Land use rights		420,632	436,275
Pre-paid tax		80,203	1,766
Foreclosed assets	(2)	103,876	112,785
Intangible assets	(3)	115,473	103,762
Others	(4)	896,279	816,966
Total		<u>1,643,270</u>	<u>7,836,377</u>

(1) Interest receivable

Analysis by type

As at 31 December 2018, the Group included the interests on financial instruments, accrued using the effective interest rate method, in the carrying amounts of the corresponding financial instruments, and recorded the interests on related financial instruments that had become due and receivable but not yet been received at the balance sheet date in interest receivable under other assets.

(2) Foreclosed assets

Analysis by type

	As at 31 December 2018	As at 31 December 2017
Land use rights and buildings	120,495	123,014
Allowance for impairment losses	<u>(16,619)</u>	<u>(10,229)</u>
Total	<u>103,876</u>	<u>112,785</u>

(3) Intangible assets are mainly computer software which are amortised over 10 years.

(4) The amounts mainly represent receivables from suppliers, decoration fees of leased assets, temporary payments of other receivables, deferred expenditure.

28. BORROWINGS FROM CENTRAL BANK

As at 31 December 2018, borrowings from central bank mainly contain the mid-term loan facilities from PBOC, of which the carrying amount is RMB27,500 million (31 December 2017: RMB30,500 million).

Notes to the Consolidated Financial Statements (Continued)

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29. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2018	As at 31 December 2017
Deposits from domestic banks	21,307,895	65,263,981
Deposits from other domestic financial institutions	<u>2,192,803</u>	<u>20,223,837</u>
Total	<u>23,500,698</u>	<u>85,487,818</u>

Deposits from banks and other financial institutions are interest bearing at prevailing market interest rates.

30. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December 2018	As at 31 December 2017
Placements from domestic banks and other financial institutions	27,138,205	22,063,598
Placements from overseas banks	<u>1,735,556</u>	<u>916,338</u>
Total	<u>28,873,761</u>	<u>22,979,936</u>

As at 31 December 2018, there was no unconsolidated non-guaranteed WMPs managed by the Bank invested in inter-bank borrowings of a subsidiary of the Bank, CQRC Financial Leasing. Co., Ltd. (31 December 2017: RMB500 million, see Note 46. The Group recognised it as a placement from other banks and financial institutions).

31. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at 31 December 2018	As at 31 December 2017
Analysed by collateral type:		
– Debt securities	2,227,636	5,104,920
– Bills	<u>3,693,042</u>	<u>2,440,110</u>
Total	<u>5,920,678</u>	<u>7,545,030</u>

All repurchase agreements are due within twelve months from inception.

Notes to the Consolidated Financial Statements (Continued)

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32. DEPOSITS FROM CUSTOMERS

	As at 31 December 2018	As at 31 December 2017
Demand deposits		
Corporate customers	122,756,228	121,315,195
Individual customers	111,100,497	107,609,106
Time deposits		
Corporate customers	31,179,270	26,540,309
Individual customers	343,579,509	307,206,545
Pledged deposits	(1) 7,508,095	9,417,851
Others (Including outward remittance and remittance outstanding)	42,593	95,250
Total	<u>616,166,192</u>	<u>572,184,256</u>

(1) Analysed by products for which pledged deposits is required:

	As at 31 December 2018	As at 31 December 2017
Acceptances	3,731,410	5,927,440
Loans and receivables	1,212,731	956,221
Letters of credit	367,172	530,509
Letters of guarantee	530,705	498,355
Others	<u>1,666,077</u>	<u>1,505,326</u>
Total	<u>7,508,095</u>	<u>9,417,851</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

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33. ACCRUED STAFF COSTS

		As at 31 December 2018	As at 31 December 2017
Salaries, bonuses and allowances		2,590,007	2,229,790
Supplementary retirement benefits	(1)	2,624,659	2,381,298
Early retirement benefits	(2)	213,076	241,176
Labor union fees and staff education expenses		197,572	170,640
Total		5,625,314	5,022,904

(1) Supplementary retirement benefits

The Group sponsors defined benefit plans for qualified employees. The defined benefit plans include supplementary retirement benefits.

The plans mainly expose the Group to actuarial risks such as: interest rate risk, longevity risk and employee benefit risk.

- Interest risk: A decrease in the bond interest rate will increase the plan liability.
- Longevity risk: The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality or survival ages of the participants both during and after their employment. An increase in the life expectancy of the participants will increase the plan's liability.
- Employee benefit risk: The present value of the defined benefit plan liabilities are calculated by reference to the future benefits of the participants. As such, an increase in the benefit of the participants will increase the plan's liability.

The Group's obligation in respect of the supplementary retirement benefits at the end of the reporting period was calculated using the projected accumulated unit credit method by Willis Towers Watson, an external independent actuary.

Supplementary retirement benefits include supplementary pension and medical benefits.

Notes to the Consolidated Financial Statements (Continued)

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33. ACCRUED STAFF COSTS (Continued)

(1) Supplementary retirement benefits (Continued)

The principal assumptions used for the purpose of the actuarial valuations for supplementary retirement benefits were as follows:

	As at 31 December 2018	As at 31 December 2017
Discount rate	3.50%	4.25%
Annual average medical expenses inflation rate	7.00%	7.00%
Expected increase rate of cost of living for beneficiaries	4.50%	4.50%
Mortality rate	China Insurance Industry Experience Mortality Table 2010-2013	

Amounts recognised in comprehensive income in respect of the supplementary retirement benefits are as follows:

	As at 31 December 2018	As at 31 December 2017
Service cost:		
– Current service cost	16,420	5,130
– Past service cost	3,850	485,630
Net interest expense	98,030	75,950
Components of supplementary retirement benefit costs recognised in profit or loss	118,300	566,710
Remeasurement on the net defined benefit liability	234,070	(243,710)
Components of supplementary retirement benefit cost recognised in other comprehensive income	234,070	(243,710)
Total	352,370	323,000

Notes to the Consolidated Financial Statements (Continued)

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33. ACCRUED STAFF COSTS (Continued)

(1) Supplementary retirement benefits (Continued)

Movement in the present value of the supplementary retirement benefit obligation in the current period were as follows:

	As at 31 December 2018	As at 31 December 2017
Defined benefit obligation at beginning of the year	2,381,298	2,160,958
Interest cost	98,030	75,950
Loss arising from re-measurement on the defined benefit liability:		
– Actuarial loss/(gain) arising from changes in financial assumptions	234,070	(243,710)
Current service cost	16,420	5,130
Past service cost	3,850	485,630
Benefits paid	<u>(109,009)</u>	<u>(102,660)</u>
Defined benefit obligation at end of the year	<u>2,624,659</u>	<u>2,381,298</u>

(2) Early retirement benefits

Early retirement benefits include basic salary and allowance paid monthly/annually, social insurance contribution and housing fund, and supplemental medical benefits in excess of the statutory level paid by the government-mandated basic medical program to original and new retired staff until they reach their normal retirement age.

For the year ended 31 December 2018, the Group incurred RMB27 million (2017: RMB4 million), and paid RMB55 million (2017: RMB63 million) in respect of the early retirement benefits plan.

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34. DEBT SECURITIES ISSUED

		As at 31 December 2018	As at 31 December 2017
Interbank certificates of deposit issued	(1)	144,345,729	94,901,345
Bonds issued	(2)	<u>15,263,688</u>	<u>9,000,000</u>
Total		<u>159,609,417</u>	<u>103,901,345</u>

(1) As at 31 December 2018 and 31 December 2017, the tenor of the outstanding certificates of deposit issued by the Bank in the China Domestic Internal Bond Market was 1 to 12 months.

(2) As approved by the PBOC and CBIRC, the Bank issued special financial bonds for small and micro enterprise loans of RMB3,000 million on 14 December 2018.

As approved by the PBOC and CBIRC, the Bank issued financial bonds of RMB3,000 million on 8 May 2018.

As approved by the PBOC and CBIRC, the Bank issued callable tier-two capital bonds of RMB4,000 million on 7 December 2016.

As approved by the PBOC and CBIRC, the Bank issued callable tier-two capital bonds of RMB5,000 million on 19 June 2014.

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35. DEFERRED TAXATION

(1) Recognised deferred tax assets and liabilities which have not been offset:

	As at 31 December 2018	
	Deferred tax assets/ (liability)	Deductible/ (taxable) temporary differences
Deferred tax assets		
Allowances of impairment losses	3,606,897	14,427,589
Accrued and unpaid wages, bonuses and allowances	687,863	2,751,451
Retirement benefits	155,337	621,348
Adjustment of book value of assets and liabilities on the date of establishment	51,782	207,127
Government grants	20,860	83,441
Provision	76,905	307,619
	<u>4,599,644</u>	<u>18,398,575</u>
Deferred tax liabilities		
Adjustment of book value of assets and liabilities on the date of establishment	(42,731)	(170,924)
Changes in fair value of financial instruments	(43,953)	(175,812)
	<u>(86,684)</u>	<u>(346,736)</u>
	<u>4,512,960</u>	<u>18,051,839</u>

Notes to the Consolidated Financial Statements (Continued)

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35. DEFERRED TAXATION (Continued)

(1) Recognised deferred tax assets and liabilities which have not been offset (Continued):

	As at 31 December 2017	
	Deferred tax assets/ (liability)	Deductible/ (taxable) temporary differences
Deferred tax assets		
Allowances of impairment losses	2,459,896	9,839,584
Accrued and unpaid wages, bonuses and allowances	591,731	2,366,922
Retirement benefits	103,844	415,377
Adjustment of book value of assets and liabilities on the date of establishment	79,235	316,939
Government grants	21,510	86,038
Changes in fair value of financial instruments	36,617	146,469
Provision	8,753	35,012
	<u>3,301,586</u>	<u>13,206,341</u>
Deferred tax liabilities		
Adjustment of book value of assets and liabilities on the date of establishment	(44,858)	(179,430)
	<u>3,256,728</u>	<u>13,026,911</u>

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

35. DEFERRED TAXATION (Continued)

(2) The followings are the major deferred tax assets and liabilities recognised and movements thereon:

	Allowances of impairment loss	Retirement benefits	Accrued salaries bonuses and allowances	Provision	Changes in fair value of financial instruments	Government grants	Others	Total
As at 31 December 2017	2,459,896	103,844	591,731	8,753	36,617	21,510	34,377	3,256,728
Changes in accounting policy	(207,091)	—	—	101,956	69,569	—	—	(35,566)
As at 1 January 2018 (restated)	2,252,805	103,844	591,731	110,709	106,186	21,510	34,377	3,221,162
Credit/(Charge) to profit or loss	1,354,092	(7,024)	96,132	(33,804)	(125,910)	(650)	(19,918)	1,262,918
Credit/(Charge) to other comprehensive income	—	58,517	—	—	(24,229)	—	(5,408)	28,880
As at 31 December 2018	<u>3,606,897</u>	<u>155,337</u>	<u>687,863</u>	<u>76,905</u>	<u>(43,953)</u>	<u>20,860</u>	<u>9,051</u>	<u>4,512,960</u>
As at 1 January 2017	2,020,716	192,234	517,766	6,473	(23,108)	22,159	45,468	2,781,708
Credit/(Charge) to profit or loss	439,180	(27,463)	73,965	2,280	5,428	(649)	(11,091)	481,650
Credit/(Charge) to other comprehensive income	—	(60,927)	—	—	54,297	—	—	(6,630)
As at 31 December 2017	<u>2,459,896</u>	<u>103,844</u>	<u>591,731</u>	<u>8,753</u>	<u>36,617</u>	<u>21,510</u>	<u>34,377</u>	<u>3,256,728</u>

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36. OTHER LIABILITIES

		As at 31 December 2018	As at 31 December 2017
Interest payable	(1)	N/A	4,647,804
Other payables	(2)	5,908,972	5,408,023
Deferred income	(3)	624,453	564,105
Tax payables (excluding corporate income tax payable)	(4)	395,132	312,599
Dividends payable		37,839	51,395
Provision	(5)	<u>307,619</u>	<u>35,012</u>
Total		<u>7,274,015</u>	<u>11,018,938</u>

(1) Interest payable

As at 31 December 2018, the Group included the interests on financial instruments, accrued using the effective interest rate method, in the carrying amounts of the corresponding financial instruments, and recorded the interests on related financial instruments that had become due and payable but not yet been paid at the balance sheet date in interest payable under other liabilities.

Notes to the Consolidated Financial Statements (Continued)

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36. OTHER LIABILITIES (Continued)

(2) Other payables

	As at 31 December 2018	As at 31 December 2017
Payables from providing agency services	2,025,789	1,917,398
Leasing business related payables	1,955,221	1,404,862
Items in process of clearing and settlement	1,138,575	994,000
Long term loans (i)	39,064	40,629
Grant payable on behalf of government	55,917	18,165
Others	694,406	1,032,969
Total	5,908,972	5,408,023

(i) The amounts represent special-purpose loans from International Fund for Agriculture Development ("IFAD") to support the petty loans in the PRC.

As at 31 December 2018 and 31 December 2017, the loans bear a fixed interest rate of 0.75% per annum. At 31 December 2018, these loans have approximately remaining 26 years. The terms are similar to the related loans granted to customers.

(3) Deferred income

Deferred income mainly represents deferred financial leasing income and government grants, for which the income will be amortised and recognised over the periods necessary to match them with the related costs.

	As at 31 December 2018	As at 31 December 2017
Deferred leasing income	481,374	457,671
Government grants	81,674	84,149
Fee and commission	31,926	7,275
Operating leasing	2,393	4,406
Other deferred income	27,086	10,604
Total	624,453	564,105

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36. OTHER LIABILITIES (Continued)

- (4) Tax payables (excluding corporate income tax payable)

	As at 31 December 2018	As at 31 December 2017
Value added tax	341,985	262,680
Urban maintenance and construction tax	24,660	17,705
Individual income tax	8,916	17,771
Others	19,571	14,443
Total	395,132	312,599

- (5) Provision

Provision mainly contains provision for credit impairment allowance due to loan commitments and financial guarantee contracts. As at 31 December 2018, the Group's credit commitment and financial guarantee contracts are mainly in stage 1.

37. SHARE CAPITAL

	Number of shares (in thousands)	Amount
As at 31 December 2017	10,000,000	10,000,000
As at 31 December 2018	10,000,000	10,000,000

On 21 September, 2017, the Bank issued 700 million shares of common stock at a price of RMB5.75 per share, with a par value of RMB1.00. After the capital increase, the registered capital of the bank was changed to RMB10,000 million.

38. CAPITAL RESERVE

The Bank issued shares at a premium. Share premium was recorded in the capital reserve after deducting direct issuance costs which mainly included underwriting fees and professional fees. Where the Bank acquired equity interests from non-controlling shareholders, which is assessed as equity transactions. The difference between fair value of any considerations paid and the relevant share acquired of the carrying amount of net assets of the subsidiary was recorded in capital reserve.

Capital reserve of the Bank included premium of RMB910 million from the placement of ordinary shares in 2010, and premium of RMB7,706 million from the initial public offering of overseas listed foreign shares on the Hong Kong Stock. Exchange in 2010, the premium of RMB3,291 million from the placement of ordinary shares in 2017.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

39. INVESTMENT REVALUATION RESERVE

	Pre-tax amount	Tax impact	Net-of-tax amount
As at 1 January 2017	70,959	(17,740)	53,219
(Loss)/Gain on fair value changes of available-for-sale financial assets	(192,113)	48,028	(144,085)
Amount reclassified to profit or loss upon disposal of available-for-sale financial assets	(25,076)	6,269	(18,807)
As at 31 December 2017	(146,230)	36,557	(109,673)
Changes in accounting policy	95,825	(23,956)	71,869
As at 1 January 2018 (restated)	(50,405)	12,601	(37,804)
Fair value gain/(loss) for the year			
Amount reclassified to profit or loss upon disposal of financial assets measured at FVOCI	198,575	(49,644)	148,931
Amount that cannot be reclassified to profit or loss upon disposal of financial assets measured at FVOCI	(80,025)	20,006	(60,019)
As at 31 December 2018	68,145	(17,037)	51,108

40. SURPLUS RESERVE

Under the relevant PRC Laws, the Bank is required to transfer 10% of its net profit to a non-distributable statutory surplus reserve. Appropriation to the statutory surplus reserve may cease when the balance of such reserves has reached 50% of the share capital.

After making the appropriation to the statutory surplus reserve, the Bank may also appropriate its profit for the period determined under the Generally Accepted Accounting Principles of the PRC ("PRC GAAP") to the discretionary surplus reserve upon approval by the shareholders in the general meetings. Subject to the approval by the shareholders, the discretionary surplus reserve may be used to offset accumulated loss of the Bank, if any, and may be converted into capital.

For the year ended 31 December 2018, the Board of Directors proposed to appropriate approximately RMB890 million to the statutory surplus reserve (2017: RMB877 million). The Bank does not propose any appropriation to discretionary surplus reserve (2017: Nil). It is pursuant to the approval by the shareholders in forthcoming general meeting.

Notes to the Consolidated Financial Statements (Continued)

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41. GENERAL RESERVE

Pursuant to the Administrative Measures for the Provision of Reserves of Financial Enterprises (Cai Jin [2012] No. 20) issued by the Ministry of Finance of the People's Republic of China, in addition to the specific and collective allowances for impairment losses, the Bank and its subsidiaries are required to establish and maintain a general reserve within equity to address potential unidentified impairment losses. The general reserve should not be less than 1.5% of the aggregate amount of risk assets as defined by the above measures.

During the year ended 31 December 2018, the Group transferred RMB377 million to general reserve pursuant to the regulatory requirement (during the year ended 31 December 2017: RMB1,351 million).

42. RETAINED EARNINGS

The movements of retained earnings of the Bank are set out below:

	As at 31 December 2018	As at 31 December 2017
As at 31 December 2017	21,122,485	N/A
Change in accounting policy	53,389	N/A
As at 1 January	21,175,874	16,248,885
Profit for the year	8,897,926	8,769,424
Appropriation to surplus reserve	(889,793)	(876,942)
Appropriation to general reserve	(1,351,103)	(1,158,882)
Dividends recognised as distribution	(2,000,000)	(1,860,000)
As at 31 December	<u>25,832,904</u>	<u>21,122,485</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

43. CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include the following balances with an original maturity of less than three months:

	As at 31 December 2018	As at 31 December 2017
Cash	3,253,449	3,273,111
Surplus reserve deposits with central bank	13,254,423	8,946,135
Deposits with banks and other financial institutions	6,280,011	8,364,149
Placements with banks and other financial institutions	5,847,283	25,581,530
Financial assets held under resale agreements	6,002,271	2,443,685
Total	34,637,437	48,608,610

44. SEGMENT ANALYSIS

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the board of directors and relevant management committees (chief operating decision maker) for the purposes of allocating resources to segments and assessing their performance. The Group operates mainly in Chongqing, the PRC. Majority of its customers and non-current assets are located in Chongqing, the PRC. The Group's chief operating decision maker reviews financial information based on business activities for the purpose of allocating resources and performance assessment.

The measurement of segment assets and liabilities, segment income and results is based on the Group's accounting policies in accordance with accounting rules and financial regulations applicable to PRC enterprises. There is no significant difference between the segment accounting policies and the policies applied in preparing the consolidated financial statements.

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

Notes to the Consolidated Financial Statements (Continued)

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44. SEGMENT ANALYSIS (Continued)

The Group has no major customers which contribute 10 percent or more of the Group's income.

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

Operating segment

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

Corporate banking

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

Personal banking

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

Financial market operations

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

44. SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2018					
	Corporate banking	Personal banking	Financial market operations	Segment total	Unallocated	Total
External interest income	11,797,260	8,789,151	19,133,572	39,719,983	–	39,719,983
External interest expense	(1,886,498)	(8,328,183)	(9,491,381)	(19,706,062)	–	(19,706,062)
Inter-segment interest (expense)/ income	(2,094,137)	8,387,695	(6,293,558)	–	–	–
Net interest income	7,816,625	8,848,663	3,348,633	20,013,921	–	20,013,921
Fee and commission income	619,213	928,473	655,392	2,203,078	–	2,203,078
Fee and commission expense	(24,963)	(80,236)	(32,083)	(137,282)	–	(137,282)
Net fee and commission income	594,250	848,237	623,309	2,065,796	–	2,065,796
Net trading gain	–	–	3,807,269	3,807,269	–	3,807,269
Other operating income, net	27,119	20,204	138,916	186,239	18,335	204,574
Operating income	8,437,994	9,717,104	7,918,127	26,073,225	18,335	26,091,560
Operating expenses	(2,717,004)	(3,343,013)	(2,105,113)	(8,165,130)	–	(8,165,130)
Impairment loss on assets	(4,261,152)	(1,388,197)	(546,555)	(6,195,904)	–	(6,195,904)
Net loss on derecognition of financial assets measured at FVOCI	–	–	39,579	39,579	–	39,579
Net gain on derecognition of financial assets measured at amortised cost	–	–	1,815	1,815	–	1,815
Profit before tax	1,459,838	4,985,894	5,307,853	11,753,585	18,335	11,771,920
Income tax expense						(2,607,883)
Profit for the year						9,164,037
Depreciation and amortisation included in operating expenses	249,766	307,312	193,516	750,594	–	750,594
Capital expenditure	196,748	242,079	152,438	591,265	–	591,265
As at 31 December 2018						
Segment assets	229,927,094	129,592,946	581,293,262	940,813,302	9,804,737	950,618,039
Segment liabilities	168,038,676	457,412,649	250,730,838	876,182,163	2,287,014	878,469,177
Supplementary information						
Credit commitments	15,980,271	12,186,388	–	28,166,659	–	28,166,659

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

44. SEGMENT ANALYSIS (Continued)

	For the year ended 31 December 2017					
	Corporate banking	Personal banking	Financial market operations	Segment total	Unallocated	Total
External interest income	10,898,690	7,234,475	21,155,243	39,288,408	–	39,288,408
External interest expense	(1,749,748)	(7,099,816)	(8,938,114)	(17,787,678)	–	(17,787,678)
Inter-segment interest (expense)/ income	(1,723,551)	7,294,346	(5,570,795)	–	–	–
Net interest income	7,425,391	7,429,005	6,646,334	21,500,730	–	21,500,730
Fee and commission income	713,444	813,630	927,180	2,454,254	–	2,454,254
Fee and commission expense	(39,203)	(59,202)	(60,268)	(158,673)	–	(158,673)
Net fee and commission income	674,241	754,428	866,912	2,295,581	–	2,295,581
Net trading gain	–	–	(36,765)	(36,765)	–	(36,765)
Other operating income, net	34,004	22,572	131,483	188,059	22,439	210,498
Operating income	8,133,636	8,206,005	7,607,964	23,947,605	22,439	23,970,044
Operating expenses	(2,800,016)	(3,244,656)	(2,284,873)	(8,329,545)	–	(8,329,545)
Impairment loss on assets	(2,276,177)	(1,008,535)	(425,890)	(3,710,602)	–	(3,710,602)
Net gain on disposal of available-for-sale financial assets	–	–	25,076	25,076	–	25,076
Net gain on disposal of investments classified as receivables	–	–	4,752	4,752	–	4,752
Profit before tax	3,057,443	3,952,814	4,927,029	11,937,286	22,439	11,959,725
Income tax expense						(2,951,371)
Profit for the year						9,008,354
Depreciation and amortisation included in operating expenses	270,849	313,858	221,018	805,725	–	805,725
Capital expenditure	264,284	306,251	215,661	786,196	–	786,196
As at 31 December 2017						
Segment assets	217,486,656	104,576,658	575,007,504	897,070,818	8,707,262	905,778,080
Segment liabilities	163,228,104	419,497,796	255,718,680	838,444,580	2,087,815	840,532,395
Supplementary information						
Credit commitments	22,522,570	11,169,073	–	33,691,643	–	33,691,643

Unallocated assets mainly include property and equipment of the Group, equity investments, goodwill and deferred tax assets. Unallocated liabilities mainly include tax liabilities and dividends payable.

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

45. RELATED PARTY TRANSACTIONS

(1) Related parties of the Group

The directors of the Bank consider that the following shareholders are related parties of the Group:

Name of shareholders	Percentage of shares holding of the Bank (%)	
	As at 31 December 2018	As at 31 December 2017
Chongqing Yufu Assets Management Group Co., Ltd. (重慶渝富資產經營管理集團有限公司)	9.98	9.98
Chongqing City Investment (Group) Co., Ltd. (重慶市城市建設投資(集團)有限公司)	7.87	7.87
Chongqing Transport and Travel Investment Group Co., Ltd. (重慶交通旅遊投資集團有限公司)	5.89	5.89
Loncin Holding Co., Ltd. (隆鑫控股有限公司)	5.70	5.70
Chongqing Casin Group Co., Ltd. (重慶財信企業集團有限公司)	4.43	4.43
Beijing Jiuding Real Estate Co., Ltd. (北京九鼎房地產開發有限責任公司)	3.00	3.00
Xiamen Gaoxinhong Equity Investment Co., Ltd. (廈門市高鑫泓股權投資有限公司)	2.00	2.00
Chongqing Yerui Property Development Co., Ltd. (重慶業瑞房地產開發有限公司)	1.50	1.50

Other related parties include key management members and their close family members; the enterprises directly or indirectly controlled by key management members and their close family members or served by key management members and their close family members as directors or senior management; staffs with credit approval authority and their close family members; the enterprises directly or indirectly controlled by staffs with credit approval authority and their close family members or served by staffs with credit approval authority and their close family members as directors or senior management; the enterprises controlled by shareholders with more than 5% (including 5%) shares of the Bank, or shareholders who hold less than 5% of the total shares or capital but have significant influence on the Bank's operation and management; the natural persons or legal persons who satisfy any circumstances above in the next 12 months in accordance with the relevant agreement and arrangement or in the past 12 months.

Notes to the Consolidated Financial Statements (Continued)

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45. RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions

For the year ended 31 December 2018, the Group entered into the following material transactions with related parties

	Interest income		Interest expense	
	2018	2017	2018	2017
Shareholders of the Bank	423,160	448,946	22,393	35,050
Other related parties	383,593	293,026	19,846	16,620
	<u>806,753</u>	<u>741,972</u>	<u>42,239</u>	<u>51,670</u>

	Operating expenses	
	2018	2017
Shareholders of the Bank	<u>3,661</u>	<u>3,780</u>

At the end of each reporting period, the Group had the following material outstanding balances with related parties:

	Loans and advances		Customer deposits	
	to related parties		from related parties	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Shareholders of the Bank	7,656,633	8,120,990	1,512,512	1,887,122
Other related parties	<u>8,902,411</u>	<u>5,214,902</u>	<u>2,293,958</u>	<u>2,285,419</u>
Total	<u>16,559,044</u>	<u>13,335,892</u>	<u>3,806,470</u>	<u>4,172,541</u>

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45. RELATED PARTY TRANSACTIONS (Continued)

(2) Related party transactions (Continued)

	Interest receivable to related parties		Interest payable to related parties	
	As at 31 December 2018	As at 31 December 2017	As at 31 December 2018	As at 31 December 2017
Shareholders of the Bank	N/A	12,623	N/A	733
Other related parties	N/A	7,973	N/A	3,247
Total	N/A	20,596	N/A	3,980

As at 31 December 2018, the Group included the interests on financial instruments, accrued using the effective interest rate method, in the carrying amounts of the corresponding financial instruments, and recorded the interests on related financial instruments that had become due and receivable but not yet been received or payable but not yet been paid at the balance sheet date in interest receivable under other assets or interest payable under other liabilities, respectively.

	Guarantee provided by related parties	
	31 December 2018	31 December 2017
Other related parties	7,762,950	6,878,774

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45. RELATED PARTY TRANSACTIONS (Continued)

(3) Transactions between the Bank and its subsidiaries

There are various types of related party transactions between the Bank and its subsidiaries. The conditions and prices of these transactions are determined on the basis of market price and normal business procedure or contractual terms. They are examined and approved in accordance with the transaction type and content by corresponding decision-making authority.

For the year ended 31 December 2018 and 2017, transactions between the Bank and its subsidiaries include deposits with banks, deposits from banks, placement with banks and other financial institutions, and so forth.

As at 31 December 2018, the Bank's deposits with subsidiaries amounted to RMB95 million (31 December 2017: 90 million); the Bank's deposits from subsidiaries amounted to RMB674 million (31 December 2017: RMB723 million); the Bank's placements with subsidiaries amounted to RMB3,360 million (31 December 2017: RMB3,840 million).

For the year ended at 31 December 2018, the interest income of the Bank's transactions with subsidiaries amounted to RMB210 million (2017: RMB155 million); the interest expense amounted to RMB19 million (2017: RMB2 million).

(4) Key management personnel

Key management personnel are those persons in the Group who have the authority and responsibility to plan, direct and control the activities of the Bank or the Group.

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

	2018	2017
Basic salaries, bonuses and allowances	4,873	2,518
Contribution to pension schemes	849	745
Fees	1,403	820
Total	<u>7,125</u>	<u>4,083</u>

Certain key management personnel's final emoluments for the current year are subject to approval by relevant authorities in the PRC and have not been finalised. Management of the Group believes that difference in emoluments will not have significant impact on the consolidated financial statements of the Group as at 31 December 2018. The disclosed amount of remuneration is the amount paid in current year. The amount of actual remuneration will be announced after approval.

For the year ended 31 December 2018, both the loans made to key management personnel and their relatives, and the corresponding interest income are not material.

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46. STRUCTURED ENTITIES

(1) Unconsolidated structured entities managed by the Group

Unconsolidated structured entities managed by the Group consist primarily of collective investment vehicles (“WMP Vehicles”) formed to issue and distribute wealth management products (“WMPs”), which are not subject to any guarantee by the Group of the principal invested or interest to be paid. The WMP Vehicles invest in a range of primarily fixed-rate assets, most typically money market instruments and debt securities. As the manager of WMPs, the Group invests, on behalf of its customers, the funds raised in the assets as described in the contract related to each WMP and distribute gain to investors on the basis of the operation performance of those products. The variable return that the Group has in relation to the WMPs is not significant, therefore the WMP Vehicles are not consolidated by the Group.

As at 31 December 2018 and 2017, the outstanding WMPs issued by the Group amounted to RMB110,038million and RMB107,187 million, respectively, which represent the total size of the WMP vehicles. The interest of the Group from the operation of the WMPs mainly consists of fee and commission income. For the year ended 31 December 2018, the Group’s interest in the non-guaranteed WMP Vehicles included in Fee and Commission Income was RMB863 million (2017: RMB1,072 million).

As at 31 December 2018, none of the unconsolidated non-guaranteed WMPs was invested in inter-bank borrowings of CQRC Financial Leasing Co., Ltd., as interbank lending with a maturity of less than one year (As at 31 December 2017: RMB500 million).

There were no contractual liquidity arrangements, guarantees or other commitments among or between the Group, WMP vehicles or any third parties that could increase the level of the Group’s risk from or reduce its interest in WMP vehicles disclosed above during the years ended 31 December 2018 and 2017. The Group is not required to absorb any loss incurred by WMPs before other parties. During the years ended 31 December 2018 and 2017, no loss was incurred by the WMP Vehicles relating to the Group’s interests in the WMP Vehicles, and the WMP Vehicles did not experience difficulty in financing their activities.

Notes to the Consolidated Financial Statements (Continued)

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46. STRUCTURED ENTITIES (Continued)

(2) Unconsolidated structured entities held by the Group

The Group invests in a number of other unconsolidated structured entities that are sponsored and managed by other entities for investment return, and records trading gain or loss and interest income therefrom. As at 31 December 2018 and 2017, the Group's maximum exposure to these other unconsolidated structured entities is summarised in the table below.

	As at 31 December 2018	
	Financial assets measured at fair value through profit or loss	Financial assets measured at amortised cost
WMPs issued by other banks	9,818,435	–
Asset-backed securities	29,856	8,557,213
Trust beneficial rights	–	31,884,245
Total	9,848,291	40,441,458

	As at 31 December 2017		
	Available-for-sale investments	Held-to-maturity investments	Investments classified as receivables
WMPs issued by other banks	147,663,128	–	–
Trust beneficial rights	3,676	–	46,316,724
Assets management plans	–	–	108,546
Asset-backed securities	19,740	2,461,210	–
Total	147,686,544	2,461,210	46,425,270

Information of the total size of the Unconsolidated Structured Entities of the Group listed above is not readily available from the public.

Notes to the Consolidated Financial Statements (Continued)

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46. STRUCTURED ENTITIES (Continued)

(3) Consolidated structured entities

The Group's consolidated structured entities consist principally of WMP Vehicles that issue and distribute WMPs with respect to which the Group has not guaranteed the investors' principal investment and/or return upon maturity of the WMP, regardless of its actual performance during the year 2018 and 2017. No unguaranteed WMPs is consolidated by the Group at 31 December 2018 (31 December 2017: Nil).

47. CONTINGENT LIABILITIES AND COMMITMENTS

(1) Legal proceedings

The Group is involved as defendants in certain lawsuits arising from its normal business operations. As at 31 December 2018 and 2017, provisions of RMB2.48 million and RMB7.09 million were made respectively based on court judgements or the advice of counsels. The directors of the Bank believe, based on legal advice, that the final result of these lawsuits will not have a material impact on the financial position or operations of the Group.

(2) Capital commitments

	As at 31 December 2018	As at 31 December 2017
Contracted but not provided for	<u>205,382</u>	<u>335,916</u>

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

47. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

(3) Credit commitments

	As at 31 December 2018	As at 31 December 2017
Acceptances	9,629,490	14,502,293
Undrawn credit card limit	12,186,388	11,169,073
Letters of guarantee	5,241,007	6,479,329
Letters of credit issued	1,109,774	1,540,948
Total	28,166,659	33,691,643

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

The Group grants loan commitments to specific customers. The directors of the Bank are of the opinion that such commitments are conditional and revocable and are therefore not included in the commitments disclosure above.

Credit risk weighted amounts for credit commitments

	As at 31 December 2018	As at 31 December 2017
Credit commitments	13,500,156	16,033,337

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

Notes to the Consolidated Financial Statements (Continued)

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47. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

(4) Operating lease commitments

At the end of each reporting period, the Group has the following non-cancellable operating lease commitments as lessee with fixed lease term and lease payment:

	As at 31 December 2018	As at 31 December 2017
Within 1 year	74,141	78,608
1 to 2 years	45,969	50,254
2 to 3 years	24,005	28,661
3 to 4 years	13,056	15,555
4 to 5 years	9,009	8,703
Above 5 years	37,570	32,686
Total	203,750	214,467

The leases are negotiated with lease terms of 1 to 15 years.

For the year ended 31 December 2018, operating lease expense recognised as operating expense by the Group was RMB119 million (for the year ended at 31 December 2017: RMB111 million).

Assets pledged as collateral

The carrying amount of assets pledged as collateral under repurchase agreement by the Group is as follows:

	As at 31 December 2018	As at 31 December 2017
Bonds	48,662,226	43,253,732
Bills	3,649,451	2,449,291
Loans and advances	2,488,000	—
Total	54,799,677	45,703,023

Notes to the Consolidated Financial Statements (Continued)

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47. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

(4) Operating lease commitments (Continued)

Collateral accepted

The Group received bills and securities as collaterals under resale agreements. The Group has no collaterals that have been re-pledged, with the obligation of the Group to return at the maturity date as at 31 December 2018 and 2017.

48. TRANSFER OF FINANCIAL ASSETS

(1) Financial assets sold under repurchase agreements

In daily operating activities, the Group entered into repurchase agreements with certain counterparties. As at 31 December 2018, there are debt securities with carrying amount of RMB2,420 million under these agreements measured at amortised cost (31 December 2017: RMB5,320 million). The carrying amount of bills, which were sold by the Group to certain counterparties and were subject to the simultaneous agreements with commitments to repurchase at specified future dates and prices, was 3,649 million as at 31 December 2018 (31 December 2017: RMB2,449 million). The proceeds from selling such debt securities and bills totalling RMB5,921 million as at 31 December 2018 (31 December 2017: RMB7,545 million) are presented as “financial assets sold under repurchase agreements” (see Note 31).

As stipulated in the repurchase agreements, there is no transfer of the legal ownership of these debt securities and bills to the counterparties during the covered period. However, the Group is not allowed to sell or pledge these securities during the covered period unless both parties mutually agree with such arrangement. Accordingly, the Group has determined that it retains substantially all the risks and rewards of these debt securities and therefore has not derecognised from the consolidated financial statements but regarded as “collateral” for the secured lending from the counterparties.

(2) Rediscounted bills

As at 31 December 2018 and 2017, the carrying amount of the outstanding rediscounted bills of the Group, which qualifies for derecognition, were RMB4,170 million and RMB1,764 million, respectively.

(3) Asset securitisation

In the course of securitisation transactions, the Group sells assets to special purpose trusts from whom the asset-backed securities are subsequently sold to the investors. The Group may hold some asset-backed securities in these businesses, thus reserving part of risks and rewards of transferred credit assets. The Group analyses and judges whether to derecognise relevant credit assets based on degree of retention of risks and rewards.

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

48. TRANSFER OF FINANCIAL ASSETS (Continued)

(3) Asset securitisation (Continued)

As at 31 December 2018, the carrying amount of the credit assets transferred by the Group to special purpose trust was RMB1,910 million before transfer. The Group has derecognised relevant credit assets. The carrying amount of the Group's share of the above asset-backed securities as at 31 December 2018 was RMB44 million (31 December 2017: RMB90 million), with a maximum loss exposure similar to the carrying amount.

(4) Transfer of non-performing loans

For the year ended 31 December 2018, the Group has disposed non-performing assets with a carrying amount of RMB1,469 million (31 December 2017: Nil) by transferring them to third parties. The Group analysed whether to derecognise related credit asset according to the degree of risk and reward retention. After the assessment, the Group has derecognised the relevant credit assets.

(5) Securities lending transactions

For debt securities lent to counterparties under securities lending agreements, the counterparties are allowed to sell or repledge these securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. As at 31 December 2018, the carrying amount of debt securities lent to counterparties was RMB4,550 million (31 December 2017: Nil).

49. FINANCIAL RISK MANAGEMENT

Discussed below are risk management policies of the Group, in which the information and methods were used in the measurement of ECL under IFRS 9, and necessary adjustments were made in accordance with IFRS 9.

(1) Overview

The primary risk management of the Group is to maintain risk within acceptable parameters and satisfy the regulatory requirements.

The Group has designed risk management policies and has set up risk controls to identify, analyse, monitor and report risks by means of relevant and up-to-date information systems. The Group regularly reviews its risk management policies and systems to address changes in markets, products and emerging best practice.

The major risks of the Group include credit risk, market risk and liquidity risk. Market risk includes currency risk, interest risk and other price risk. The Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(2) Risk Management Framework

The Group has a risk management committee under the Board of Directors. Risk management committee is responsible for setting the overall risk management and internal control strategies of the Group, monitoring credit risk, market risk, liquidity risk and operation risk, periodically assessing the overall risk position, risk acceptance and management capabilities, and making recommendations and suggestions on risk management and internal control of the Group and the Bank.

Following the risk management strategies set by the risk management committee, the Risk Management Department of the Group formulates and implements relevant risk management policies and procedures to monitor the risk arising from financial instruments of the Group.

The Group's framework of financial risk management, risk management policies and process except for credit risk used in preparing the consolidated financial statements for the year ended 31 December 2018 are the same as those followed in the preparation of the Group's consolidated financial statement for the year end 31 December 2017.

(3) Credit Risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations. Credit risk can also arise from operational failures that result in an unauthorised or inappropriate advance, commitment or investment of funds. The major credit risk of the Group comes from loans and advances to customers and other on-balance sheet and off-balance sheet credit risk exposures.

(a) Credit risk management

(i) Loans and advances to customers

The Group exercises standardised credit management procedures, including credit investigation and proposals, credit limit review, loan disbursement, post lending monitoring, and non-performing loans management. The Group enhances its credit risk management by strict compliance with its credit management procedures; strengthening customer investigation, lending approval and post lending monitoring; enhancing risk mitigation effect of loans through collateral; accelerating disposal process of non-performing loans and continuously upgrade of Credit Management System.

The Group strictly implements the "Measures for Management of Bad Debt Verification of Financial Enterprises" issued by Ministry of Finance. For those claims that have taken necessary measures and implemented necessary procedures and are still unable to recover, they will be written off after approval if complying with the conditions for the recognition of bad debts. In 2018, the Group wrote off non-performing loans of RMB2,986 million.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit Risk (Continued)

(a) Credit risk management (Continued)

(ii) Due from banks and other financial institutions

The Group adopts a Group-to-Group principle for credit to financial institutions. The Group set credit lines for financial institutions or single financial institutions that have financial transactions with the Group.

(ii) Bonds and other notes

The Group manages the credit risk exposure of bonds and other notes by controlling the scale of investment, setting the list of granting entities, rating access, Group-to-Group credit, and post-investment management.

(iii) Other financial assets

Financial assets mainly include asset management products, debt financing plans and etc. The Group implements a rating system for cooperating with financial institutions and sets credit lines for the ultimate financing party of the asset management products and debt financing plans, and conducts subsequent risk management on a regular basis.

(iv) Credit commitments

The main purpose of the credit commitment is to ensure that customers receive the funds they need. The letters of guarantee, acceptances and letters of credit issued are an irrevocable undertaking of the Group, that is, the Group undertakes to pay on behalf of its customer to the third party or to perform the payment on behalf of customers upon their failure to perform under the terms of the contract. There is a possibility that customer violates the terms of the contract and the Group needs to perform the payment on behalf of its customers. Risks arising from financial guarantees are similar to those associated with loans and advances. These transactions are, therefore, subject to the same risk management procedures and policies.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit Risk (Continued)

(b) Expected Credit Loss Measurement

For the year ended 31 December 2018, the Group adopts a “three-stage” model for impairment based on changes in credit quality since initial recognition, to estimate the ECL.

- Stage 1: Financial instruments with no significant increase in credit risk after initial recognition. Expected credit losses in the next 12 months is recognised.
- Stage 2: There are significant increase in credit risk since initial recognition, but no objective evidence of impairment of the financial instrument. Lifetime ECL of financial instruments is recognised.
- Stage 3: Financial instruments show objective evidence of impairment on the balance sheet date. Lifetime ECL is recognised.

Significant Increase in Credit Risk (SICR)

The Group sufficiently considers available and valid information in order to decide the stage of financial assets, which reflects the significant increase in credit risk. The major factors considered include internal and external credit grading, repayment ability, operation capacity, contract terms of the loan, repayment behaviors, etc. The Group evaluates the change in default risk on reporting date and initial recognition of one financial instrument or a portfolio of financial instruments that shares the similar credit risk features. The Group considers the change in probability of default (PD), whether the overdue exceeds 30 days and other factors to determine whether there is significant increase in credit risk since initial recognition.

The Group sets a series of quantitative and qualitative criteria to determine whether there are significant changes in credit risk of financial instruments since initial recognition. The following factors are mainly considered:

- Interest or principal paid by debtors is overdue for more than 30 days;
- A significant decrease in debtor’s credit rating compared to that of initial recognition;
- Significant adverse changes in the debtor’s operations or financial situation;
- Other objective evidence indicating there are significant changes in credit risk.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit Risk (Continued)

(b) Expected Credit Loss Measurement (Continued)

Definition on Default and Credit-impaired Assets

The Group determined whether the assets were credit impaired based on a series of quantitative and qualitative standards such as credit ratings, and the risk profile changes of the debtor. The Group defines a financial instrument as in default when it meets one or more of the following criteria. In order to evaluate whether a financial asset is credit impaired, the Group considers the following criteria:

- Credit rating grade is D;
- Significant financial difficulty of the borrower or issuer;
- Breach of contract term, such as a default or delinquency in interest or principal payments for over 90 days;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for financial assets because of financial difficulties;
- Other objective evidence indicating there is an impairment of the financial asset.

Measuring ECL – Explanation of Inputs, Assumptions and Estimation Techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

The PD represents the likelihood of a borrower breaching the contractual terms or defaulting on its financial obligation over a specific time, either the next 12 months, or the remaining lifetime of the obligation.

Loss Given Default (LGD) refers to the extent of loss on a defaulted exposure, which is the ratio of the expected loss in the total amount of a loan. The Group's LGD is calculated in line with recovery amount according to different types of guarantee.

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit Risk (Continued)

(b) Expected Credit Loss Measurement (Continued)

Measuring ECL – Explanation of Inputs, Assumptions and Estimation Techniques (Continued)

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting year.

Forward-looking Information

The calculation of ECL incorporates forward-looking macro-economic information.

The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL for each portfolio, mainly including GDP, CPI, M2, PCDI of urban residents, etc, to calculate the forward-looking impact of the macro-economic environment on ECL.

The Group has established forecast model along with time series data collection of the above key economic indicators from Wind China Macro and Industry Database and internal data. On this basis, combined with the experience of experts, a certain proportion of the predicted value of the model is used as the forecast value of future key economic indicators and the weights of the three scenarios, optimistic, baseline and pessimistic are determined.

Similar to other economic projections, there is a high degree of inherent uncertainty in the estimation of expected values and likelihood of occurrence, so actual results may differ materially from forecasts. The Group believes that these projections reflect the Group's best estimate of possible outcomes to determine that the scenarios selected are appropriate to represent possible scenarios.

Sensitivity analysis

ECL are sensitive to the parameters used in the model, the macro-economic variables of the forecast, the weight probabilities in the three scenarios, and other factors considered in the application of expert judgement. Changes in these inputs, assumptions, models, and judgements will have an impact on the significant increase in credit risk and the measurement of ECL.

As at 31 December 2018, the Group's credit impairment provision would increase by RMB415 million, assuming that the weighting of the optimistic scenario is reduced by 10% while the weighting of the baseline scenario is increased by 10%. The Group's credit impairment provision would decrease by RMB650 million, if the weighting of the pessimistic scenario is reduced by 10%, and the weight of baseline scenario is increased by 10%.

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit Risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements

The maximum exposure to credit risk represents the credit risk exposure to the Group at the end of the reporting period without taking into account any collateral held or other credit enhancements. The maximum exposure to credit risk at the end of the reporting period is represented by the carrying amount of each financial asset recognised in the consolidated statements of financial position and credit commitments disclosed in Note 47 "Contingent Liabilities and Commitments".

	As at 31 December 2018				As at 31 December 2017	
	Stage 1	Stage 2	Stage 3	Not applicable	Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements	Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements
Financial assets						
Balances with central bank	82,681,727	–	–	–	82,681,727	93,738,974
Deposits with banks and other financial institutions	32,208,145	–	–	–	32,208,145	45,380,379
Placements with banks and other financial institutions	138,543,543	–	–	–	138,543,543	102,641,378
Derivative financial assets	–	–	–	93,990	93,990	169,629
Financial assets held under resale agreements	6,000,733	–	–	–	6,000,733	2,443,685
Loans and advances to customers	330,314,961	30,665,104	3,046,083	–	364,026,148	324,109,622

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit risk management (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)

	As at 31 December 2018				As at 31 December 2017	
	Stage 1	Stage 2	Stage 3	Not applicable	Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements	Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements
Financial investments						
Financial assets measured at fair value through profit or loss	–	–	–	5,246,227	5,246,227	519,234
Financial assets measured at fair value through other comprehensive income	7,043,931	52,808	–	–	7,096,739	N/A
Financial assets measured at amortised cost	287,539,883	2,024,837			289,564,720	N/A
Available-for-sale financial assets - debt instruments	N/A	N/A	N/A	N/A	N/A	165,084,216
Held-to-maturity investments	N/A	N/A	N/A	N/A	N/A	72,444,185
Investments classified as receivables	N/A	N/A	N/A	N/A	N/A	78,743,066
Other financial assets	952,300	N/A	N/A	N/A	952,300	7,131,914
Subtotal	885,285,223	32,742,749	3,046,083	5,340,217	926,414,272	892,406,282
Off-balance sheet credit commitments	28,166,659	–	–	–	28,166,659	33,691,643
Total	913,451,882	32,742,749	3,046,083	5,340,217	954,580,931	926,097,925

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit Risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)

The Group conducts internal stratified management of asset risk characteristics according to the quality status of assets. Financial assets included in the expected credit losses are further classified into “risk level 1”, “risk level 2”, “risk level 3” and “default” within each stage according to internal rating scales and overdue days, the results of this layered management are used by the Bank for internal credit risk management purposes. “Risk level 1” means that the asset quality is good, and the rating is high, or there is no overdue situation, or there is no reason to suspect that the asset is expected to default; “Risk level 2” means medium rating, or although there is a certain overdue situation, the asset quality is good or there may be factors that have an adverse effect, but there is no sufficient reason to suspect that the asset is expected to default. “Risk level 3” means that the rating is low or the overdue situation is more serious, which means that there are factors that have a significantly adverse effect on the asset default, but there is no event indicating that the default has occurred. The criteria for “default” is consistent with definition of credit impairment that has occurred;

(a) *Maximum exposure to credit risk of loans and advances to customers measured at amortised cost analysed by internal stratified management:*

Corporate loans and advances	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Credit rating				
Risk level 1	111,000,004	4,930,079	–	115,930,083
Risk level 2	74,788,429	28,253,302	–	103,041,731
Risk level 3	–	1,209,180	–	1,209,180
Default	–	–	7,506,052	7,506,052
Gross carrying amount	185,788,433	34,392,561	7,506,052	227,687,046
Less: allowance for impairment losses	(3,552,897)	(4,784,458)	(4,739,149)	(13,076,504)
Net carrying amount	182,235,536	29,608,103	2,766,903	214,610,542

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit Risk (Continued)

Maximum exposure to credit risk before taking into account any collateral held or other credit enhancements (Continued)

(a) *Maximum exposure to credit risk of loans and advances to customers measured at amortised cost analysed by internal stratified management: (Continued)*

Personal loans and advances	As at 31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Credit rating				
Risk level 1	130,464,787	—	—	130,464,787
Risk level 2	94,557	1,276,567	—	1,371,124
Risk level 3	—	109,742	—	109,742
Default	—	—	1,310,303	1,310,303
Gross carrying amount	130,559,344	1,386,309	1,310,303	133,255,956
Less: allowance for impairment losses	(2,672,570)	(329,308)	(1,031,123)	(4,033,001)
Net carrying amount	127,886,774	1,057,001	279,180	129,222,955

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit risk (Continued)

Loans and advances to customers

- (i) The composition of loans and advances to customers by industry or by nature is analysed as follows:

	As at 31 December 2018		As at 31 December 2017	
	Amount	%	Amount	%
Corporate loans and advances				
Manufacturing	65,984,774	26.61	66,039,250	29.38
Water, environment and public utilities management	42,510,083	17.15	46,775,553	20.81
Leasing and commercial services	37,698,767	15.21	18,036,420	8.02
Retail and wholesale	28,982,025	11.69	25,550,655	11.37
Production and supply of electricity, gas and water	14,874,024	6.00	14,186,054	6.31
Transportation, logistics and postal services	12,340,581	4.98	10,468,016	4.66
Financial industry	8,791,584	3.55	5,787,688	2.57
Construction	8,426,056	3.40	8,101,005	3.60
Real estate	8,267,894	3.34	10,725,323	4.77
Sanitation and social work	4,923,744	1.99	4,054,052	1.80
Agriculture, forestry, animal husbandry and fishery	4,206,545	1.70	4,154,949	1.85
Education	3,209,672	1.29	3,295,430	1.47
Others	7,663,948	3.09	7,620,840	3.39
Subtotal	247,879,697	100.00	224,795,235	100.00
Personal loans and advances				
Mortgages	60,373,885	45.30	50,185,504	44.20
Loans to private business and employment assistance loans	42,998,253	32.27	38,120,621	33.57
Credit cards	3,955,417	2.97	4,211,008	3.71
Others	25,928,401	19.46	21,034,199	18.52
Subtotal	133,255,956	100.00	113,551,332	100.00
	381,135,653		338,346,567	

As at 31 December 2018, discounted bills included in corporate loans and advances were RMB20,193 million (31 December 2017: RMB10,043 million).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit risk (Continued)

Loans and advances to customers (Continued)

- (i) The composition of loans and advances to customers by industry or by nature is analysed as follows (Continued):

Details of credit impaired loans, loan loss allowances, charges (reversal), and amounts written off in respect of economic sectors which constitute 10% or more of total corporate loans and advances are as follows:

	2018					
	Gross	ECL			Charge	Written off
	impaired loans	Stage 1	Stage 2	Stage 3	for the year	in the year
Manufacturing	2,356,944	(726,992)	(685,919)	(1,774,801)	(1,362,996)	785,626
Water, environment and public utilities management	–	(601,262)	(1,672,213)	–	(561,766)	–
Leasing and commercial services	5,750	(749,917)	(745,479)	(4,460)	(282,075)	171,585
Retail and wholesale	<u>2,258,370</u>	<u>(267,094)</u>	<u>(202,486)</u>	<u>(1,293,612)</u>	<u>(1,216,259)</u>	<u>889,307</u>
	2017					
	Gross	Individually	Collectively	Charge	Written off	
	impaired loans	assessed allowances	assessed allowances	for the year	in the year	
Manufacturing	893,376	(508,707)	(2,487,778)	(540,293)	237,730	
Water, environment and public utilities management	–	–	(1,453,150)	(170,076)	–	
Retail and wholesale	<u>814,231</u>	<u>(434,639)</u>	<u>(1,109,274)</u>	<u>(808,892)</u>	<u>250,944</u>	

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit risk (Continued)

Loans and advances to customers (Continued)

- (ii) The composition of loans and advances to customers by contractual maturity and collateral type is analysed as follows:

	As at 31 December 2018			Total
	Less than 1 year	1 to 5 years	More than 5 years	
Unsecured loans	26,308,180	17,379,707	6,412,645	50,100,532
Guaranteed loans	38,088,445	38,374,513	29,942,004	106,404,962
Collateralised and other secured loans				
– loans secured by property and other immovable assets	62,513,298	25,920,448	75,936,734	164,370,480
– other pledged loans	24,225,947	7,304,898	28,728,834	60,259,679
Total	151,135,870	88,979,566	141,020,217	381,135,653

	As at 31 December 2017			Total
	Less than 1 year	1 to 5 years	More than 5 years	
Unsecured loans	25,241,877	13,926,549	4,312,907	43,481,333
Guaranteed loans	39,644,148	34,321,716	23,936,111	97,901,975
Collateralised and other secured loans				
– loans secured by property and other immovable assets	59,197,089	27,979,999	65,588,835	152,765,923
– other pledged loans	14,616,528	9,694,832	19,885,976	44,197,336
Total	138,699,642	85,923,096	113,723,829	338,346,567

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit risk (Continued)

Loans and advances to customers (Continued)

(iii) Overdue loans

	As at 31 December 2018				Total
	Up to 90 days	91 – 360 days	361 days to 3 years	Over 3 years	
Unsecured loans	188,828	236,712	7,308	5,514	438,362
Guaranteed loans	453,010	864,494	278,002	13,971	1,609,477
Collateralised and other secured loans					
– loans secured by property and other immovable assets	1,358,523	1,126,656	656,763	275,080	3,417,022
– other pledged loans	27,338	27,822	–	–	55,160
Total	2,027,699	2,255,684	942,073	294,565	5,520,021

	As at 31 December 2017				Total
	Up to 90 days	91 – 360 days	361 days to 3 years	Over 3 years	
Unsecured loans	92,554	142,730	17,649	8,832	261,765
Guaranteed loans	352,070	429,275	223,043	59,106	1,063,494
Collateralised and other secured loans					
– loans secured by property and other immovable assets	1,081,898	1,269,846	1,151,856	132,945	3,636,545
– other pledged loans	15,832	–	25,000	–	40,832
Total	1,542,354	1,841,851	1,417,548	200,883	5,002,636

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue.

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit risk (Continued)

Loans and advances to customers (Continued)

(iv) Credit quality of loans and advances to customers

	As at 31 December 2018	As at 31 December 2017
Neither overdue nor credit impaired	N/A	333,132,181
Overdue but not credit impaired	N/A	1,912,983
Impaired	N/A	3,301,403
Gross loans and advances to customers	N/A	338,346,567
Less: Allowances for impairment losses	N/A	(14,236,945)
Loans and advances to customers, net	N/A	324,109,622

Loans and advances overdue but not credit impaired

	As at 31 December 2017					Fair value of collateral
	Up to 30 days (including 30 days)	30 – 60 days (including 60 days)	60 – 90 days (including 90 days)	More than 90 days	Total	
Corporate loans and advances	185,533	147,011	96,260	477,266	906,070	1,739,684
Personal loans and advances	534,462	192,840	166,224	113,387	1,006,913	1,512,356
Total	719,995	339,851	262,484	590,653	1,912,983	3,252,040

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit risk (Continued)

Loans and advances to customers (Continued)

(iv) Credit quality of loans and advances to customers (Continued)

Credit impaired loans and advances

	As at 31 December 2017		
	Contractual amount	Allowance for impairment losses	Carrying amount
Individually assessed	2,066,859	(1,189,630)	877,229
Collectively assessed	1,234,544	(1,001,671)	232,873
Total	3,301,403	(2,191,301)	1,110,102

Including:

	As at 31 December 2017
Individually assessed and impaired	2,066,859
Individually assessed and impaired loans and advances as a percentage of gross loans and advances	0.61%
Fair value of collateral	3,529,389

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit risk (Continued)

Loans and advances to customers (Continued)

(v) Rescheduled loans and advances

Rescheduled loans are loans that have been renegotiated due to deterioration in the borrower's financial position to the extent that the borrower is unable to repay according to the original terms and where the Group has made concessions that it would not otherwise consider under normal circumstances. Rescheduled loans are subject to ongoing monitoring. The amount of rescheduled loans and advances is shown as follows:

	As at 31 December 2018		As at 31 December 2017	
	Total	Percentage of gross loans and advances to customers	Total	Percentage of gross loans and advances to customers
Rescheduled loans and advances to customers	351,634	0.09%	615,617	0.18%
Of which:				
Rescheduled loans and advances overdue for more than 90 days	334,245	0.09%	37,054	0.01%

(vi) Assets foreclosed under credit enhancement arrangement

No new foreclosed assets were acquired by the Group in 2018 (2017: RMB2.52 million).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit risk (Continued)

Debt securities

(i) Credit quality of debt securities

	As at 31 December 2018	As at 31 December 2017
Neither overdue nor credit impaired	N/A	318,816,436
Credit impaired	N/A	158,547
Subtotal	N/A	318,974,983
Less: Individually assessed allowance for impairment losses	N/A	(60,852)
Collectively assessed allowance for impairment losses	N/A	(2,123,430)
Debt securities, net	N/A	316,790,701

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit risk (Continued)

Debt securities (Continued)

(i) Credit quality of debt securities (Continued)

Debt securities neither overdue nor credit impaired

	As at 31 December 2017				Total
	Financial assets held for trading	Available- for-sale financial assets	Held-to- maturity investments	Debt securities classified as receivables	
Government bonds	–	60,740	25,530,137	6,199,000	31,789,877
Public sector, quasi- government bonds	289,411	284,509	24,304,317	–	24,878,237
Financial institution bonds	–	56,663	5,910,919	2,926,225	8,893,807
Corporate bonds	90,014	10,775,228	15,450,922	24,561,095	50,877,259
Interbank deposit certificates	139,809	–	1,513,871	–	1,653,680
Trust and asset management plans	–	5,229,743	–	46,316,723	51,546,466
WMPs issued by other banks	–	147,663,128	–	–	147,663,128
Others	–	1,014,205	–	499,777	1,513,982
Total	519,234	165,084,216	72,710,166	80,502,820	318,816,436

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit risk (Continued)

Debt securities (Continued)

(i) Credit quality of debt securities (Continued)

Credit impaired debt securities

	As at 31 December 2018	As at 31 December 2017
Held-to-maturity investments		
– Corporate bonds	N/A	50,000
Less: Allowance for impairment losses	N/A	(30,000)
Carrying amount	N/A	20,000
	As at 31 December 2018	As at 31 December 2017
Debt securities classified as receivables		
– Others	N/A	108,547
Less: Allowance for impairment losses	N/A	(30,852)
Carrying amount	N/A	77,695

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit risk (Continued)

Debt securities (Continued)

(ii) Debt securities analysed by credit rating and credit risk characteristics

The Group and the Bank relies on credit rating provided by the external credit agencies in the PRC to classify the debt securities.

	As at 31 December 2018				Total
	AAA	AA	A and below	Unrated	
Financial assets measured at fair value through profit and loss					
Public sector, quasi-government bonds	–	–	–	404,062	404,062
Financial institution bonds	1,624,752	2,610,527	–	–	4,235,279
Corporate bonds	–	606,886	–	–	606,886
Subtotal	1,625,752	3,217,413	–	404,062	5,246,227
Financial assets measured at fair value through other comprehensive income					
Corporate bonds	42,533	2,255,695	–	3,940,254	6,238,482
Debt financing plans	–	–	–	858,257	858,257
Subtotal	42,533	2,255,695	–	4,798,511	7,096,739
Financial assets measured at amortised cost					
Government bonds	3,066,146	–	–	79,325,542	82,391,688
Public sector, quasi-government bonds	2,672,939	–	–	36,010,582	38,683,521
Financial institution bonds	11,358,381	607,335	–	–	11,965,716
Corporate bonds	9,057,137	7,274,276	267,654	34,165,023	50,764,090
Interbank deposit certificates	–	–	–	67,113,717	67,113,717
Debt financing plans	–	–	–	6,761,743	6,761,743
Trust plans	–	–	–	31,884,245	31,884,245
Subtotal	26,154,603	7,881,611	267,654	255,260,852	289,564,720
Total	27,821,888	13,354,719	267,654	260,463,425	301,907,686

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(3) Credit risk (Continued)

Debt securities (Continued)

(ii) Debt securities analysed by credit rating and credit risk characteristics (Continued)

	As at 31 December 2017				
	AAA	AA	A and below	Unrated	Total
Financial assets held for trading					
Public sector, quasi-government bonds	-	-	-	289,411	289,411
Corporate bonds	-	-	-	90,014	90,014
Interbank deposit certificates	-	-	-	139,809	139,809
Subtotal	-	-	-	519,234	519,234
Available-for-sale financial assets					
Government bonds	-	-	-	60,740	60,740
Public sector, quasi-government bonds	-	-	-	284,509	284,509
Financial institution bonds	-	36,923	-	19,740	56,663
Corporate bonds	225,608	1,602,729	-	8,946,891	10,775,228
Debt financing plans	-	-	-	1,014,205	1,014,205
Trust and asset management plans	-	-	-	5,229,743	5,229,743
WMPs issued by other banks	-	-	-	147,663,128	147,663,128
Subtotal	225,608	1,639,652	-	163,218,956	165,084,216
Held-to-maturity investments					
Government bonds	-	-	-	25,530,137	25,530,137
Public sector, quasi-government bonds	3,068,407	-	-	21,235,910	24,304,317
Financial institution bonds	4,482,468	1,428,451	-	-	5,910,919
Corporate bonds	8,971,862	5,920,987	108,154	183,938	15,184,941
Interbank deposit certificates	-	-	-	1,513,871	1,513,871
Subtotal	16,522,737	7,349,438	108,154	48,463,856	72,444,185
Debt securities classified as receivables					
Government bonds	-	-	-	6,199,000	6,199,000
Financial institution bonds	1,294,755	1,631,470	-	-	2,926,225
Corporate bonds	-	-	-	24,070,094	24,070,094
Debt financing plans	-	-	-	489,777	489,777
Trust and asset management plans	-	-	-	45,057,970	45,057,970
Subtotal	1,294,755	1,631,470	-	75,816,841	78,743,066
Total	18,043,100	10,620,560	108,154	288,018,887	316,790,701

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(4) Liquidity risk

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. This may arise from cash flow or maturity mismatches of assets and liabilities.

The Asset and Liability Management Committee of the Group mapped out the index management system of the ratios of asset and liability structure, based on the principles of liquidity, safety, and profitability; determines annual target values of these indexes in accordance with regulatory requirement and business plan; and allocates the tasks to branches for implementation. In the process of implementation, Risk Management Department of the headquarter supervises the implementation quality of branches, by preparing monthly and quarterly statistic tables of assets and liabilities management indexes, to achieve the expected objectives of matching of assets and liabilities.

The Group established the supervision system of indexes of asset and liability management, the liquidity reverse system, and relevant emergency management measures, to reduce the liquidity risk of the Group. The Group worked out the ratio of liquidity in accordance with the requirement of CBIRC, and reported to CBIRC monthly.

The assets which can be used for repaying debt and paying for the outstanding credit commitments contain cash and balances with central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, financial assets designated at fair value through profit and loss, and so forth. In normal operation, majority of deposits will not be withdrawn immediately on the maturity date. Therefore, the Group will retain this part of cash flow.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(4) Liquidity risk (Continued)

Analysis of the remaining maturity of the financial assets and liabilities

The table below summarises the maturity analysis of financial assets and liabilities by remaining contractual maturities at the end of the reporting period.

	As at 31 December 2018							Total
	Overdue/ undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Cash and balances with central bank	69,427,304	16,507,872	-	-	-	-	-	85,935,176
Deposits with banks and other financial institutions	-	5,640,031	4,337,748	1,441,142	20,789,224	-	-	32,208,145
Placements with banks and other financial institutions	-	-	14,306,862	30,399,726	89,704,944	4,132,011	-	138,543,543
Derivative financial assets	-	-	16,405	1,056	40,385	36,144	-	93,990
Financial assets held under resale agreements	-	-	6,000,733	-	-	-	-	6,000,733
Loans and advances to customers	1,910,335	-	15,917,020	21,605,571	123,462,755	94,747,425	106,383,042	364,026,148
Financial investments								
Financial assets measured at fair value through profit and loss	-	-	5,065,650	308,904	4,973,509	407,887	4,338,568	15,094,518
Financial assets measured at fair value through other comprehensive income	616,375	-	149,269	51,646	977,317	5,812,475	106,032	7,713,114
Financial assets measured at amortised cost	-	-	3,622,425	25,458,889	73,625,849	119,505,320	67,352,237	289,564,720
Other financial assets	-	952,300	-	-	-	-	-	952,300
Total financial assets	71,954,014	23,100,203	49,416,112	79,266,934	313,573,983	224,641,262	178,179,879	940,132,387

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(4) Liquidity risk (Continued)

Analysis of the remaining maturity of the financial assets and liabilities (Continued)

	As at 31 December 2018							Total
	Overdue/ undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Borrowings from central bank	-	-	2,596,300	6,189,099	21,669,124	-	-	30,454,523
Deposits from banks and other financial institutions	-	505,267	3,451,784	4,354,830	15,178,454	10,363	-	23,500,698
Placements from banks and other financial institutions	-	-	5,357,865	7,529,179	15,986,717	-	-	28,873,761
Derivative financial liabilities	-	-	13,550	367	40,122	29,868	-	83,907
Financial assets sold under repurchase agreements	-	-	3,239,914	1,000,175	1,680,589	-	-	5,920,678
Deposits from customers	-	260,078,403	26,972,810	86,455,326	130,725,805	111,933,848	-	616,166,192
Debt securities issued	-	-	11,642,458	42,849,397	90,120,915	5,996,647	9,000,000	159,609,417
Other financial liabilities	-	6,099,498	-	-	-	-	39,064	6,138,562
Total financial liabilities	-	266,683,168	53,274,681	148,378,373	275,401,726	117,970,726	9,039,064	870,747,738
Net position	71,954,014	(243,582,965)	(3,858,569)	(69,111,439)	38,172,257	106,670,536	169,140,815	69,384,649

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(4) Liquidity risk (Continued)

Analysis of the remaining maturity of the financial assets and liabilities (Continued)

	As at 31 December 2017							Total
	Overdue/ undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Cash and balances with central bank	84,792,839	12,219,246	-	-	-	-	-	97,012,085
Deposits with banks and other financial institutions	-	6,535,349	8,858,800	13,538,725	16,447,505	-	-	45,380,379
Placements with banks and other financial institutions	-	-	39,223,565	23,271,458	40,146,355	-	-	102,641,378
Financial assets held for trading	-	-	139,809	-	90,014	289,411	-	519,234
Financial assets designated at fair value through profit or loss	-	-	760	3,165	24,106	141,598	-	169,629
Financial assets held under resale agreements	-	-	2,443,685	-	-	-	-	2,443,685
Loans and advances to customers	2,593,002	-	13,370,005	20,991,507	109,144,622	91,908,557	86,101,929	324,109,622
Available-for-sale financial assets	696,400	-	47,338,587	33,709,096	67,770,291	15,486,719	779,523	165,780,616
Held-to-maturity investments	20,000	-	553,811	1,606,851	7,939,101	40,946,852	21,377,570	72,444,185
Debt securities classified as receivables	-	-	1,320,034	2,063,753	16,023,809	53,225,245	6,110,225	78,743,066
Other financial assets	-	768,799	1,767,289	1,649,555	2,555,210	22	391,039	7,131,914
Total financial assets	88,102,241	19,523,394	115,016,345	96,834,110	260,141,013	201,998,404	114,760,286	896,375,793

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(4) Liquidity risk (Continued)

Analysis of the remaining maturity of the financial assets and liabilities (Continued)

	As at 31 December 2017							Total
	Overdue/ undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Borrowings from central bank	-	-	2,045,000	5,035,000	24,258,420	-	-	31,338,420
Deposits from banks and other financial institutions	-	1,442,986	29,809,542	19,112,000	35,023,290	100,000	-	85,487,818
Placements from banks and other financial institutions	-	-	8,738,639	3,102,520	11,138,777	-	-	22,979,936
Derivative financial liabilities	-	-	710	11,112	23,726	141,041	-	176,589
Financial assets sold under repurchase agreements	-	-	5,630,571	1,914,459	-	-	-	7,545,030
Deposits from customers	-	249,002,848	32,926,017	84,166,531	138,788,427	67,300,430	3	572,184,256
Debt securities issued	-	-	8,039,080	26,665,663	60,196,602	-	9,000,000	103,901,345
Other financial liabilities	-	5,453,663	752,370	1,177,292	1,990,177	641,696	40,629	10,055,827
Total financial liabilities	-	255,899,497	87,941,929	141,184,577	271,419,419	68,183,167	9,040,632	833,669,221
Net position	88,102,241	(236,376,103)	27,074,416	(44,350,467)	(11,278,406)	133,815,237	105,719,654	62,706,572

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(4) Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows

The tables below present the cash flows of financial assets and financial liabilities by remaining contractual maturities at the end of each reporting period. The amounts disclosed in the tables are the expected undiscounted contractual cash flows. The Group manages liquidity risk on basis of expected undiscounted cash flows.

	As at 31 December 2018							Total
	Overdue/ undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Non-derivative financial assets								
Cash and balances with central bank	69,427,304	16,666,891	-	-	-	-	-	86,094,195
Deposits with banks and other financial institutions	-	5,651,214	4,347,433	1,452,566	21,332,312	-	-	32,783,525
Placements with banks and other financial institutions	-	-	14,342,233	31,026,571	91,798,016	4,294,863	-	141,461,683
Financial assets held under resale agreements	-	-	6,008,458	-	-	-	-	6,008,458
Loans and advances to customers	1,910,335	-	18,893,968	24,011,342	135,915,571	98,390,712	189,443,480	468,565,408
Financial investments								
Financial assets measured at fair value through profit and loss	-	-	5,071,003	361,772	5,281,054	1,204,067	5,057,550	16,975,446
Financial assets measured at fair value through other comprehensive income	616,375	-	150,337	62,129	1,184,459	6,849,920	108,768	8,971,988
Financial assets measured at amortised cost	-	-	3,759,873	26,384,215	80,571,903	145,409,065	76,548,344	332,673,400
Other financial assets	-	925,493	-	-	-	-	-	925,493
Total financial assets	71,954,014	23,243,598	52,573,305	83,298,595	336,083,315	256,148,627	271,158,142	1,094,459,596

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(4) Liquidity risk (Continued)

Analysis of the remaining maturity of the financial assets and liabilities (Continued)

	As at 31 December 2018							Total
	Overdue/ undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Non-derivative financial liabilities								
Borrowings from central bank	-	-	2,756,731	6,754,671	22,882,706	-	-	32,394,108
Deposits from banks and other financial institutions	-	505,268	3,477,519	4,380,407	15,573,629	11,172	-	23,947,995
Placements from banks and other financial institutions	-	-	5,364,475	7,693,048	16,303,644	-	-	29,361,167
Financial assets sold under repurchase agreements	-	-	3,240,913	1,004,436	1,702,360	-	-	5,947,709
Deposits from customers	-	260,307,992	27,000,185	86,715,866	132,486,993	121,746,845	-	628,257,881
Debt securities issued	-	-	11,660,000	43,140,000	92,420,000	8,382,000	9,775,000	165,377,000
Other financial liabilities	-	5,869,908	-	-	-	-	39,064	5,908,972
Total financial liabilities	-	266,683,168	53,499,823	149,688,428	281,369,332	130,140,017	9,814,064	891,194,832
Net position	<u>71,954,014</u>	<u>(243,439,570)</u>	<u>(926,518)</u>	<u>(66,389,833)</u>	<u>54,713,983</u>	<u>126,008,610</u>	<u>261,344,078</u>	<u>203,264,764</u>
Derivative financial instruments								
Gross amount								
Total inflows	-	-	1,287,678	188,293	3,388,340	3,172,107	-	8,036,418
Total outflows	-	-	(1,284,824)	(187,603)	(3,388,077)	(3,165,832)	-	(8,026,336)
Net position	-	-	2,854	690	263	6,275	-	10,082

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(4) Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows (Continued)

	As at 31 December 2017							Total
	Overdue/ undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Non-derivative financial assets								
Cash and balances with central bank	84,792,839	12,266,121	-	-	-	-	-	97,058,960
Deposits with banks and other financial institutions	-	6,537,057	9,115,946	14,053,292	17,209,334	-	-	46,915,629
Placements with banks and other financial institutions	-	-	39,991,615	23,737,959	41,385,630	-	-	105,115,204
Financial assets held for trading	-	-	140,000	-	102,610	307,950	-	550,560
Financial assets designated at fair value through profit or loss								
Financial assets held under resale agreements	-	-	2,447,020	-	-	-	-	2,447,020
Loans and advances to customers	2,593,002	-	14,539,212	24,202,465	119,995,593	119,399,086	123,000,606	403,729,964
Available-for-sale financial assets	696,400	-	47,482,806	34,133,173	70,218,326	18,462,435	856,927	171,850,067
Held-to-maturity investments	20,000	-	731,574	2,146,852	10,317,195	49,441,921	24,875,000	87,532,542
Debt securities classified as receivables	-	-	1,551,262	2,947,737	19,798,033	61,038,842	7,221,961	92,557,835
Other financial assets	-	767,091	-	-	-	-	-	767,091
Total financial assets	88,102,241	19,570,269	115,999,435	101,221,478	279,026,721	248,650,234	155,954,494	1,008,524,872

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(4) Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows (Continued)

	As at 31 December 2017							Total
	Overdue/ undated	On demand	Less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	
Non-derivative financial liabilities								
Borrowings from central bank	–	–	2,104,966	5,225,480	24,671,671	–	–	32,002,117
Deposits from banks and other financial institutions	–	1,444,803	30,238,879	19,485,322	36,651,417	124,093	–	87,944,514
Placements from banks and other financial institutions	–	–	8,820,935	3,301,403	11,646,162	–	–	23,768,500
Financial assets sold under repurchase agreements	–	–	5,650,097	1,956,950	–	–	–	7,607,047
Deposits from customers	–	249,087,300	33,485,498	85,576,295	141,580,969	73,368,089	4	583,098,155
Debt securities issued	–	–	8,050,000	26,880,000	62,091,000	1,884,000	10,246,000	109,151,000
Other financial liabilities	–	5,367,394	–	–	–	–	48,552	5,415,946
Total financial liabilities	–	255,899,497	88,350,375	142,425,450	276,641,219	75,376,182	10,294,556	848,987,279
Net position	88,102,241	(236,329,228)	27,649,060	(41,203,972)	2,385,502	173,274,052	145,659,938	159,537,593
Derivative financial instruments								
Gross amount								
Total inflows	–	–	52,502	683,184	1,391,405	4,605,898	–	6,732,989
Total outflows	–	–	(52,452)	(691,131)	(1,391,025)	(4,605,341)	–	(6,739,949)
Net position	–	–	50	(7,947)	380	557	–	(6,960)

Notes to the Consolidated Financial Statements (Continued)

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49. FINANCIAL RISK MANAGEMENT (Continued)

(4) Liquidity risk (Continued)

Analysis of the undiscounted contractual cash flows (Continued)

Assets available to meet all of the liabilities include cash, balances with central banks, deposits with banks and other financial institutions, placements with banks and other financial institutions, available-for-sale financial assets, financial assets held for trading and financial assets designated at fair value through profit or loss. In the normal course of business, the majority of customer deposits repayable on demand are expected to be revolved.

Off-balance sheet items

Off-balance sheet items of the Group include acceptances, undrawn credit card limits and others. The tables below set forth the amounts of the off-balance sheet items by remaining maturity.

	31 December 2018			Total
	Up to 1 year	1 – 5 years	Over 5 years	
Bank acceptances	9,629,490	–	–	9,629,490
Undrawn credit card limits	12,186,388	–	–	12,186,388
Letters of guarantee	3,583,769	1,649,198	8,040	5,241,007
Letters of credit issued	1,109,774	–	–	1,109,774
Total	<u>26,509,421</u>	<u>1,649,198</u>	<u>8,040</u>	<u>28,166,659</u>

	31 December 2017			Total
	Up to 1 year	1 – 5 years	Over 5 years	
Bank acceptances	14,502,293	–	–	14,502,293
Undrawn credit card limits	11,169,073	–	–	11,169,073
Letters of guarantee	1,774,807	4,696,482	8,040	6,479,329
Letters of credit issued	1,538,004	2,944	–	1,540,948
Total	<u>28,984,177</u>	<u>4,699,426</u>	<u>8,040</u>	<u>33,691,643</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(5) Market risk

Market risk is the risk of loss, in respect of the Group's and the Bank's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, and stock prices. Market risk arises from the proprietary business of the Group.

The Group considers the market risk arising from equity prices in respect of its trading and investment portfolios is immaterial.

The Group is primarily exposed to interest rate risk arising from corporate and personal banking. Interest rate risk is inherent in many of its businesses and largely arises from mismatches between the re-pricing dates of interest-generating assets and interest-bearing liabilities.

The Group's foreign currency risk is the risk of loss in respect of its foreign currency exposures, arising from transactions taken on foreign currency denominated assets and liabilities, which results from movements in foreign currency exchange rates.

Foreign currency risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and to a lesser extent in other currencies. Transactions in foreign currencies mainly arise from the Group's treasury exposures.

The exchange rate of RMB to USD is under a managed floating exchange rate system. The exchange rate of RMB to USD has certain fluctuations over the past two years. The HKD exchange rate has been pegged to the USD and therefore the exchange rate of RMB to HKD has fluctuated in line with the changes in the exchange rate of RMB to USD.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

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49. FINANCIAL RISK MANAGEMENT (Continued)

(5) Market risk (Continued)

Foreign currency risk (Continued)

	As at 31 December 2018				Total
	RMB	USD RMB equivalent	HKD RMB equivalent	Other currencies RMB equivalent	
Cash and balances with central bank	85,730,392	204,644	140	–	85,935,176
Deposits with banks and other financial institutions	31,523,042	489,095	39,250	156,758	32,208,145
Placements with banks and other financial institutions	134,422,567	4,050,811	70,165	–	138,543,543
Derivative financial assets	79,224	14,766	–	–	93,990
Financial assets held under resale agreements	6,000,733	–	–	–	6,000,733
Loans and advances to customers	360,857,426	3,167,469	–	1,253	364,026,148
Financial investments					
Financial assets measured at fair value through profit and loss	15,094,518	–	–	–	15,094,518
Financial assets measured at fair value through other comprehensive income	7,713,114	–	–	–	7,713,114
Financial assets measured at amortised cost	289,530,089	34,631	–	–	289,564,720
Other financial assets	952,300	–	–	–	952,300
Total financial assets	931,903,405	7,961,416	109,555	158,011	940,132,387

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(5) Market risk (Continued)

Foreign currency risk (Continued)

	As at 31 December 2018				Total
	RMB	USD RMB equivalent	HKD RMB equivalent	Other currencies RMB equivalent	
Borrowings from central bank	30,454,523	–	–	–	30,454,523
Deposits from banks and other financial institutions	23,500,560	138	–	–	23,500,698
Placements from banks and other financial institutions	23,991,971	4,881,790	–	–	28,873,761
Derivative financial liabilities	8,644	75,263	–	–	83,907
Financial assets sold under repurchase agreements	5,920,678	–	–	–	5,920,678
Deposits from customers	613,923,763	2,222,522	6	19,901	616,166,192
Debt securities issued	159,609,417	–	–	–	159,609,417
Other financial liabilities	6,099,498	39,064	–	–	6,138,562
Total financial liabilities	863,509,054	7,218,777	6	19,901	870,747,738
Net position	68,394,351	742,639	109,549	138,110	69,384,649
Credit commitments	23,830,028	4,336,445	–	186	28,166,659

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(5) Market risk (Continued)

Foreign currency risk (Continued)

	As at 31 December 2017				Total
	RMB	USD RMB equivalent	HKD RMB equivalent	Other currencies RMB equivalent	
Cash and balances with central bank	96,911,517	99,281	1,287	–	97,012,085
Deposits with banks and other financial institutions	44,115,739	1,040,984	94,243	129,413	45,380,379
Placements with banks and other financial institutions	99,818,604	2,822,774	–	–	102,641,378
Financial assets held for trading	519,234	–	–	–	519,234
Derivative financial assets	169,629	–	–	–	169,629
Financial assets held under resale agreements	2,443,685	–	–	–	2,443,685
Loans and advances to customers	321,542,846	2,553,060	–	13,716	324,109,622
Available-for-sale financial assets	165,780,616	–	–	–	165,780,616
Held-to-maturity investments	72,412,134	32,051	–	–	72,444,185
Debt securities classified as receivables	78,743,066	–	–	–	78,743,066
Other financial assets	7,067,218	64,640	–	56	7,131,914
Total financial assets	889,524,288	6,612,790	95,530	143,185	896,375,793

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(5) Market risk (Continued)

Foreign currency risk (Continued)

	As at 31 December 2017				Total
	RMB	USD RMB equivalent	HKD RMB equivalent	Other currencies RMB equivalent	
Borrowings from central bank	30,685,000	653,420	–	–	31,338,420
Deposits from banks and other financial institutions	85,487,687	131	–	–	85,487,818
Placements from banks and other financial institutions	19,841,970	3,137,966	–	–	22,979,936
Derivative financial liabilities	4,513	172,076	–	–	176,589
Financial assets sold under repurchase agreements	7,545,030	–	–	–	7,545,030
Deposits from customers	569,945,024	2,111,305	25,767	102,160	572,184,256
Debt securities issued	103,901,345	–	–	–	103,901,345
Other financial liabilities	9,993,797	61,596	–	434	10,055,827
Total financial liabilities	827,404,366	6,136,494	25,767	102,594	833,669,221
Net position	62,119,922	476,296	69,763	40,591	62,706,572
Credit commitments	28,168,109	4,588,864	–	934,670	33,691,643

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(5) Market risk (Continued)

Foreign currency risk (Continued)

The table below indicates the potential effect of an appreciation or depreciation of RMB spot and forward exchange rate against USD by 5% on net profit.

	As at 31 December 2018 (Decrease)/ Increase in Net profit	As at 31 December 2017 (Decrease)/ Increase in Net profit
RMB5% appreciation	(27,849)	(17,861)
RMB5% depreciation	27,849	17,861

The impact on the net profit arises from the effects of movement in RMB exchange rate on the net positions of foreign monetary assets and liabilities. Changes in foreign currency exchange rate will not affect other comprehensive income.

The effect on the net profit is based on the assumption that the Group's net foreign currency at the end of the reporting period remains unchanged. The Group mitigates its foreign currency risk through active management of its foreign currency exposures, based on the management expectation of future foreign currency movements, and therefore the above sensitivity analysis may differ to the actual situation.

Interest rate risk

The interest rate risk of the Group arises from the mis-matches between contractual maturities and re-pricing of interest-generating assets and interest-bearing liabilities.

The Group manages its interest rate risk by:

- Regularly monitoring the macro-economic factors that may impact on the PBOC benchmark interest rates;
- Minimising the mis-matches between contractual maturities and repricing of interest generating assets and interest-bearing liabilities; and
- Enhancing the interest rate margin on interest-generating assets and interest-bearing liabilities with reference to the prevailing PBOC benchmark interest rates.

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(5) Market risk (Continued)

Interest rate risk (Continued)

The tables below summarise the contractual repricing or maturity date, whichever is earlier, of the Group's financial assets and liabilities.

	As at 31 December 2018						Non-interest bearing	Total
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years			
Cash and balances with central bank	80,768,023	–	–	–	–	5,167,153		85,935,176
Deposits with banks and other financial institutions	9,199,521	1,434,624	20,592,460	–	–	981,540		32,208,145
Placements with banks and other financial institutions	13,853,770	29,825,197	88,143,788	4,096,778	–	2,624,010		138,543,543
Derivative financial assets	–	–	–	–	–	93,990		93,990
Financial assets held under resale agreements	5,997,151	–	–	–	–	3,582		6,000,733
Loans and advances to customers	230,802,221	28,026,820	96,168,973	7,854,820	94,132	1,079,182		364,026,148
Financial investments								
Financial assets measured at fair value through profit and loss	–	–	529,629	378,030	4,338,568	9,848,291		15,094,518
Financial assets measured at fair value through other comprehensive income	123,613	3,169	824,284	5,812,475	106,032	843,541		7,713,114
Financial assets measured at amortised cost	3,219,601	24,121,149	71,052,285	119,505,320	67,352,237	4,314,128		289,564,720
Other financial assets	–	–	–	–	–	952,300		952,300
Total financial assets	<u>343,963,900</u>	<u>83,410,959</u>	<u>277,311,419</u>	<u>137,647,423</u>	<u>71,890,969</u>	<u>25,907,717</u>		<u>940,132,387</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(5) Market risk (Continued)

Interest rate risk (Continued)

	As at 31 December 2018						Non-interest bearing	Total
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years			
Borrowings from central bank	2,993,023	6,023,600	21,437,900	–	–	–	–	30,454,523
Deposits from banks and other financial institutions	3,813,682	4,300,000	15,110,000	10,000	–	267,016	267,016	23,500,698
Placements from banks and other financial institutions	5,313,440	7,488,616	15,912,125	–	–	159,580	159,580	28,873,761
Derivative financial liabilities	–	–	–	–	–	83,907	83,907	83,907
Financial assets sold under repurchase agreement	3,233,213	996,885	1,675,104	–	–	15,476	15,476	5,920,678
Deposits from customers	286,176,003	84,862,029	128,072,792	109,695,391	–	7,359,977	7,359,977	616,166,192
Debt securities issued	11,642,458	42,849,397	89,853,874	5,996,647	9,000,000	267,041	267,041	159,609,417
Other financial liabilities	–	–	–	–	39,064	6,099,498	6,099,498	6,138,562
Total financial liabilities	<u>313,171,819</u>	<u>146,520,527</u>	<u>272,061,795</u>	<u>115,702,038</u>	<u>9,039,064</u>	<u>14,252,495</u>	<u>14,252,495</u>	<u>870,747,738</u>
Interest rate risk gap	<u>30,792,081</u>	<u>(63,109,568)</u>	<u>5,249,624</u>	<u>21,945,385</u>	<u>62,851,905</u>	<u>11,655,222</u>	<u>11,655,222</u>	<u>69,384,649</u>

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(5) Market risk (Continued)

Interest rate risk (Continued)

	As at 31 December 2017						Total
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	
Cash and balances with central bank	92,198,824	–	–	–	–	4,813,261	97,012,085
Deposits with banks and other financial institutions	14,121,453	13,538,725	16,447,505	–	–	1,272,696	45,380,379
Placements with banks and other financial institutions	39,223,565	23,271,458	40,146,355	–	–	–	102,641,378
Financial assets held for trading	139,809	–	90,014	289,411	–	–	519,234
Derivative financial assets	–	–	–	–	–	169,629	169,629
Financial assets held under resale agreements	2,443,685	–	–	–	–	–	2,443,685
Loans and advances to customers	218,149,241	25,057,816	75,072,376	5,785,856	44,333	–	324,109,622
Available-for-sale financial assets	47,338,587	33,709,096	67,770,291	15,486,719	779,523	696,400	165,780,616
Held-to-maturity investments	553,811	1,606,851	7,939,101	40,946,852	21,377,570	20,000	72,444,185
Debt securities classified as receivables	1,320,034	2,063,753	16,023,809	53,225,245	6,110,225	–	78,743,066
Other financial assets	–	–	–	–	–	7,131,914	7,131,914
Total financial assets	415,489,009	99,247,699	223,489,451	115,734,083	28,311,651	14,103,900	896,375,793

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49. FINANCIAL RISK MANAGEMENT (Continued)

(5) Market risk (Continued)

Interest rate risk (Continued)

	As at 31 December 2017						Total
	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest bearing	
Borrowings from central bank	2,045,000	5,035,000	24,258,420	–	–	–	31,338,420
Deposits from banks and other financial institutions	31,252,528	19,112,000	35,023,290	100,000	–	–	85,487,818
Placements from banks and other financial institutions	8,738,639	3,102,520	11,138,777	–	–	–	22,979,936
Derivative financial liabilities	–	–	–	–	–	176,589	176,589
Financial assets sold under repurchase agreement	5,630,571	1,914,459	–	–	–	–	7,545,030
Deposits from customers	281,919,646	84,166,531	138,788,427	67,196,930	3	112,719	572,184,256
Debt securities issued	8,039,080	26,665,663	60,196,602	–	9,000,000	–	103,901,345
Other financial liabilities	–	–	–	–	40,629	10,015,198	10,055,827
Total financial liabilities	<u>337,625,464</u>	<u>139,996,173</u>	<u>269,405,516</u>	<u>67,296,930</u>	<u>9,040,632</u>	<u>10,304,506</u>	<u>833,669,221</u>
Interest rate risk gap	<u>77,863,545</u>	<u>(40,748,474)</u>	<u>(45,916,065)</u>	<u>48,437,153</u>	<u>19,271,019</u>	<u>3,799,394</u>	<u>62,706,572</u>

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(5) Market risk (Continued)

Interest rate risk (Continued)

The following table illustrates the potential impact after taxation of a parallel upward or downward shift of 100 basis points in RMB's yield curve on the net profit and comprehensive income, based on the Group's position of interest-bearing assets and liabilities at the end of the reporting period.

	2018		2017	
	Net profit	Other comprehensive income	Net profit	Other comprehensive income
+100 basis points	1,522,493	51,522	1,821,221	135,794
-100 basis points	(1,522,493)	(51,522)	(1,821,221)	(135,794)

Given the nature of demand deposits, their interest rate fluctuations are less volatile than those of other products; therefore the impact of yield curves movement on interest expenses related to demand deposits has been excluded.

The sensitivity analysis on net profit is based on reasonably possible changes in interest rates in the coming year with the assumption that the structure of financial assets and financial liabilities held at the end of the reporting period remain unchanged.

The sensitivity analysis on equity is the effect on changes of fixed rate financial assets at end of the reporting period after adjusting in accordance with the reasonably possible changes in interest rates.

The Group, based on regulatory requirement, conducts interest risk management in accordance with relevant regulations in Basel Accord.

This assumption does not represent the policy of use of funds and interest rate risk management of the Group. Therefore, the impact mentioned above may be different from actual situations.

Besides, the impact analysis of changes in interest rate mentioned above is a way of illustration, showing the estimated changes of net profit and other comprehensive income in cases of estimated yield and current interest risk of the Group. However, the risk management measures which may be adopted by management have not been taken into consideration in the analysis.

Notes to the Consolidated Financial Statements (Continued)

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49. FINANCIAL RISK MANAGEMENT (Continued)

(6) Capital management

The Group's and the Bank's objectives on capital management are to:

- safeguard the Group's and the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- support the Group's and the Bank's stability and growth;
- allocate capital in an efficient and risk based approach to optimise risk adjusted return to the shareholders; and
- maintain an adequate capital base to support the development of business.

The CBIRC requires commercial banks to meet the requirements of capital adequacy ratios by the end of 2018 in accordance with Administrative Measures on the Capital of Commercial Banks (Trial). For systematically important banks, CBIRC requires minimum core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio of 8.50%, 9.50% and 11.50%, respectively. For non-systematically important banks, CBIRC requires corresponding minimum ratios of 7.50%, 8.50% and 10.50%, respectively. During the reporting period, the Group is in compliance with these legal and regulatory requirements.

The risk-weighted assets of on-balance sheet exposures are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantee. The similar calculation is adopted for off-balance sheet exposures, with adjustments made to reflect the more contingent nature of any potential loss. Market risk-weighted assets are calculated using the standardised approach. Basic indicator approach is used to calculate the risk weighted assets of operational risk.

The Group calculated the following core tier-one capital adequacy ratio, tier-one capital adequacy ratio and capital adequacy ratio in accordance with Administrative Measures on the Capital of Commercial Banks (Trial) and relevant requirements promulgated by the CBIRC.

Notes to the Consolidated Financial Statements (Continued)

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(Amounts in thousands of Renminbi, unless otherwise stated)

49. FINANCIAL RISK MANAGEMENT (Continued)

(6) Capital management (Continued)

	As at 31 December 2018	As at 31 December 2017
Core tier-one capital adequacy ratio	10.95%	10.39%
Tier-one capital adequacy ratio	10.96%	10.40%
Capital adequacy ratio	13.52%	13.03%
Components of capital base		
Core tier-one capital:		
Share capital	10,000,000	10,000,000
Valid portion of capital reserve	12,228,812	12,261,233
Surplus reserve and general reserve	22,572,188	20,183,496
Retained earnings	25,947,255	21,243,958
Valid portion of non-controlling interests	693,799	561,500
Total core tier-one capital	71,442,054	64,250,187
Deductions:		
Goodwill	(440,129)	(440,129)
Other intangible assets	(115,745)	(103,762)
Net core tier-one capital	70,886,180	63,706,296
Other tier-one capital:		
Non-controlling interests	92,507	74,867
Net tier-one capital	70,978,687	63,781,163
Tier-two capital		
Valid portion of tier-two capital instruments issued and related premium	9,000,000	9,000,000
Surplus provision for loan impairment	7,377,352	7,012,556
Valid portion of non-controlling interests	185,013	148,002
Net capital base	87,541,052	79,941,721
Risk-weighted assets		
Credit-risk-weighted assets	597,565,513	568,017,030
Market-risk-weighted assets	5,076,470	3,344,361
Operational risk-weighted assets	44,777,328	42,075,237

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50. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available such as the market price of the listed equity securities on exchanges. Where Level 1 inputs are not available, the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models, including discounted cash flow analysis, using prices from observable current market transactions for similar instruments to the extent available.

The main valuation techniques used by the Group is the discounted cash flow model for financial instruments. The main inputs used in discounted cash flow model include recent transaction prices, interest rates, own credit spread and counterparty credit spreads, as appropriate. If these parameters used in the model are substantively based on observable market data and/or obtainable from active open market, the instruments are classified as Level 2.

The following tables give the information about how the fair values of these financial assets and financial liabilities are categorised and determined (in particular, the valuation technique(s) and inputs used).

Notes to the Consolidated Financial Statements (Continued)

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50. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(1) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis

Financial assets/financial liabilities	Nature of assets/ liabilities	Fair value at		Fair value hierarchy	Valuation technique(s) and key input(s)
		31/12/2018	31/12/2017		
Financial assets measured at fair value through profit or loss	Debt securities issued by:				
	– Public sector and quasi-governments	404,062	289,411	Level 2	See Note 1.
	– Financial institutions	4,235,279	–	Level 2	See Note 1.
	– Financial institutions	29,856	–	Level 3	Based on fair value of underlying assets, mainly comprising bonds and money market financial instruments traded in the China Domestic Interbank Bond Market
	– Corporations	606,886	90,014	Level 2	See Note 1.
	– WMPs issued by other financial institutions	9,818,435	–	Level 3	Discounted cash flows. Future cash flows are estimated and discounted using yield curve for similar quoted wealth management products issued by financial institutions.
	Interbank Certificates of deposit issued	–	139,809	Level 2	See Note 1.
Derivatives	Assets	93,990	169,629	Level 2	Discounted cash flows. Future cash flows are estimated based on foreign currency forward rates (from observable yield curves at the end of the reporting period), discounted at a rate that reflects the credit risk of various counterparties.
	Liabilities	83,907	176,589		
Loans and advances to customers	Loans and advances to customers measured at fair value through other comprehensive income	20,192,651	N/A	Level 3	Discounted cash flows. Future cash flows are estimated at face value and discounted using market interest rates adjusted by risk premium.

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(Amounts in thousands of Renminbi, unless otherwise stated)

50. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(1) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/financial liabilities	Nature of assets/ liabilities	Fair value at		Fair value hierarchy	Valuation technique(s) and key input(s)
		31/12/2018	31/12/2017		
Financial assets measured at fair value through other comprehensive income	Listed equity securities issued by:				
	– Financial institutions	47,690	N/A	Level 2	Based on observable H-share market price and adjusted for the lack of marketability.
	– Other institutions	560,685	N/A	Level 2	Based on observable H-share market price and adjusted for the lack of marketability.
	Unlisted equity securities issued by:				
	– Financial institutions	8,000	N/A	Level 3	Based on observable H-share market price of similar stocks, combined with discounted cash flow analysis
	Debt securities issued by:				
	– Corporations	6,238,482	N/A	Level 2	See Note 1.
	– Debt financing plans	858,257	N/A	Level 3	Discounted cash flows. Future cash flows are estimated and discounted using yield curve for similar quoted wealth management products issued by financial institutions.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

50. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(1) Fair value of financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/financial liabilities	Nature of assets/liabilities	Fair value at		Fair value hierarchy	Valuation technique(s) and key input(s)
		31/12/2018	31/12/2017		
Available-for-sale financial assets	Listed equity securities issued by:- Financial institutions	N/A	688,400	Level 2	Based on observable H-share market price and adjusted for the lack of marketability.
	Debt securities issued by:				
	– Governments	N/A	60,740	Level 2	See Note 1.
	– Public sector and quasi-governments	N/A	284,509		
	– Corporations	N/A	10,775,228		
	– Financial institutions	N/A	56,663		
	– Debt financing plans	N/A	1,014,205	Level 3	Discounted cash flows. Future cash flows are estimated and discounted using yield curve for similar quoted wealth management products issued by financial institutions.
	– Trust and asset management plans	N/A	5,229,743		
	– WMPS issued by other banks	N/A	147,663,128		

Note 1: The debt securities traded on China Domestic Interbank Bond Market are classified into Level 2. Their fair values are provided by China Central Depository And Clearing Co., Ltd. (CCDCC), and applying the respective interest yield curves of relevant debt securities as the key parameter for their fair value measurement.

There were no significant transfers between all levels during the year of 2018 and 2017.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

50. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(2) Reconciliation from the opening balances to the ending balances for fair value measurement in level 3 of the fair value hierarchy

	2018		
	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Loans and advances to customers
As at 1 January 2018	145,680,259	787,252	10,020,879
Total gain or loss:	323,737	(26,376)	21,550
Purchases	9,500,000	109,000	32,452,933
Sales and settlements	(145,655,705)	(3,619)	(22,302,711)
As at 31 December 2018	<u>9,848,291</u>	<u>866,257</u>	<u>20,192,651</u>

	2017	
	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets
As at 1 January 2017	1,009,400	88,418,660
Total gain or loss:	—	—
Purchases	—	266,728,710
Sales and settlements	(1,009,400)	(201,240,294)
As at 31 December 2017	<u>—</u>	<u>153,907,076</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

50. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(3) Fair value financial assets and financial liabilities that are not measured at fair value on a recurring basis

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not measured at their fair values. Financial assets and liabilities for which the carrying amounts approximate their fair values, such as balances with central bank, deposits with banks and other financial institutions, placements with banks and other financial institutions, borrowings from central bank, deposits from banks and other financial institutions, placements from banks and other financial institutions and financial assets sold under repurchase agreements are not included in the tables below.

	As at 31 December 2018		As at 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Loans and advances to customers	343,833,497	343,935,548	324,109,622	324,227,945
Financial assets held under resale agreements	6,000,733	6,006,247	2,443,685	2,446,025
Financial assets measured at amortised cost	289,564,720	293,751,825	N/A	N/A
Held-to-maturity investments	N/A	N/A	72,444,185	71,329,422
Investments classified as receivables	N/A	N/A	78,743,066	78,716,482
Total	639,398,950	643,693,620	477,740,558	476,719,874
Financial liabilities				
Deposits from customers	616,166,192	626,162,674	572,184,256	579,810,603
Debt securities issued	159,609,417	155,359,028	103,901,345	100,129,828
Total	775,775,609	781,521,702	676,085,601	679,940,431

The Group determines the fair value of held-to-maturity investments and debt securities issued by adopting level 2; determines the fair value of financial assets measured at amortised cost and investments classified as receivables by adopting level 2 or 3.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

50. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(3) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (Continued)

The following table gives the information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/financial liabilities		Fair value at		Fair value hierarchy	Valuation technique(s) and key input(s)
		31/12/2018	31/12/2017		
Loans and advances to customers		343,935,548	324,227,945	Level 3	Discounted cash flows. Future cash flows are estimated and discounted using the yield curve with reference to the PBOC benchmark interest rates and credit spread for specific borrowers.
Financial assets measured at amortised cost	Debt securities issued by:				
	– Government	83,667,630	N/A	Level 2	See Note 1.
	– Government	12,600	N/A	Level 3	Based on fair value of underlying assets, mainly comprising bonds and money market financial instruments traded in the China Domestic Interbank Bond Market
	– Public sector and quasi-governments	39,626,231	N/A	Level 2	See Note 1.
	– Financial institutions	12,004,588	N/A	Level 2	See Note 1.
	– Corporations	51,404,972	N/A	Level 2	See Note 1.
	– Interbank deposit certificates	67,236,809	N/A	Level 2	See Note 1.
	– Debt financing plans	6,692,712	N/A	Level 3	Discounted cash flows. Future cash flows are estimated based on expected contractual amounts, discounted at rates that reflect the credit risk of various counterparties.
	– Trust plans	33,106,283	N/A	Level 3	
Held-to-maturity investments		N/A	71,329,422	Level 2	With regard of RMB bonds provided by CCDCC, the interest rate yield curve of the relevant bonds is the key parameter of measurement of the fair value. While the fair value of foreign currency bonds is determined by the results of valuation from Bloomberg.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

50. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(3) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (Continued)

The following table gives the information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/financial liabilities		Fair value at		Fair value hierarchy	Valuation technique(s) and key input(s)
		31/12/2018	31/12/2017		
Debt securities classified as receivables	Debt securities issued by financial institution and corporations	N/A	27,097,605	Level 2	See Note 1.
	Government bonds	N/A	5,934,732	Level 2	See Note 1.
	Debt financing plans	N/A	491,851	Level 3	Discounted cash flows. Future cash flows are estimated based on expected contractual amounts, discounted at rates that reflect the credit risk of various counterparties.
	Trust and asset management plans	N/A	45,192,294		
	WMPs issued by other banks	N/A	–		
Financial assets held under resale agreements	Collateral type as:-Bills and trust beneficial rights and asset management plans	6,006,247	2,446,025	Level 3	Discounted cash flows. Future cash flows that are estimated based on contractual amounts, discounted at rates that reflect the credit risk of various counterparties.
Deposits from customers		626,162,674	579,810,603	Level 3	Discounted cash flows. Future cash flows are estimated based on contractual amounts and discounted at a rate with reference to the PBOC benchmark interest rates for deposits of similar remaining maturities.
Debt securities issued		155,359,028	100,129,828	Level 2	See Note 1.

Note 1: The debt securities traded on China Domestic Interbank Bond Market are classified into Level 2. Their fair values are provided by CCDCC and determined by using the present value valuation technique under income approach and applying the respective interest yield curves of relevant debt securities as the key parameter for their fair value measurement.

There were no significant transfers between levels for the year ended 31 December 2018 and 2017.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

51. STATEMENT OF FINANCIAL POSITION AND MOVEMENT OF RESERVES OF THE BANK

	NOTE	As at 31 December 2018	As at 31 December 2017
Assets			
Cash and balances with central bank		85,725,888	96,786,804
Deposits with banks and other financial institutions		31,963,890	43,781,688
Placements with banks and other financial institutions		141,969,601	106,481,378
Derivative financial assets		93,990	169,629
Financial assets held under resale agreements		6,000,733	2,443,685
Loans and advances to customers		332,602,257	299,538,760
Financial investments			
Financial assets measured at fair value through profit or loss		15,094,518	519,234
Financial assets measured at fair value through other comprehensive income		7,713,114	N/A
Financial assets measured at amortised cost		289,564,720	N/A
Available-for-sale financial assets		N/A	165,780,616
Held-to-maturity investments		N/A	72,444,185
Debt securities classified as receivables		N/A	78,743,066
Investment in subsidiaries	23	3,103,379	2,748,729
Property and equipment		4,680,971	4,830,822
Deferred tax assets		4,371,153	3,144,739
Goodwill		440,129	440,129
Other assets		1,499,791	7,488,011
Total Assets		924,734,134	885,341,475

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

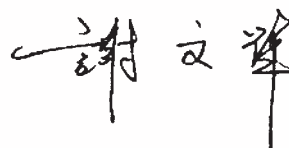
51. STATEMENT OF FINANCIAL POSITION AND MOVEMENT OF RESERVES OF THE BANK (Continued)

	NOTE	As at 31 December 2018	As at 31 December 2017
Liabilities			
Borrowings from central bank		30,275,613	31,153,420
Deposits from banks and other financial institutions		24,175,249	86,205,190
Placements from banks and other financial institutions		8,742,272	7,897,936
Derivative financial liabilities		83,907	176,589
Financial assets sold under repurchase agreements		5,920,678	7,545,030
Deposits from customers		614,518,999	570,436,411
Accrued staff costs		5,462,541	4,879,614
Corporate income tax payable		908,840	839,024
Debt securities issued		159,609,417	103,901,345
Other liabilities		4,763,553	8,970,395
Total liabilities		854,461,069	822,004,954
Equity			
Share capital	37	10,000,000	10,000,000
Capital reserve	38	12,493,286	12,493,286
Investment revaluation reserve	39	51,108	(109,673)
Actuarial changes reserve		(306,203)	(130,651)
Surplus reserve	40	10,346,945	9,457,152
General reserve	41	11,855,025	10,503,922
Retained earnings	42	25,832,904	21,122,485
Total equity		70,273,065	63,336,521
Total liabilities and equity		924,734,134	885,341,475

Approved and authorised for issue by the Board of Directors on 26 March 2019.



LIU JIANZHONG
CHAIRMAN



XIE WENHUI
EXECUTIVE DIRECTOR AND PRESIDENT

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

51. STATEMENT OF FINANCIAL POSITION AND MOVEMENT OF RESERVES OF THE BANK (Continued)

(1) Reserve movement of the Bank

	2018					
	Capital reserve	Investment revaluation reserve	Actuarial changes reserve	Surplus reserve	General reserve	Retained earnings
As at 12 December 2017	12,493,286	(109,673)	(130,651)	9,457,152	10,503,922	21,122,485
Change in accounting policy	–	71,869	–	–	–	53,389
As at 1 January 2018	12,493,286	(37,804)	(130,651)	9,457,152	10,503,922	21,175,874
Profit for the year	–	–	–	–	–	8,897,926
Other comprehensive income	–	88,912	(175,552)	–	–	–
Total comprehensive income for the year	–	88,912	(175,552)	–	–	8,897,926
Contribution from non-controlling interests	–	–	–	–	–	–
Appropriation to surplus reserve	–	–	–	889,793	–	(889,793)
Appropriation to general reserve	–	–	–	–	1,351,103	(1,351,103)
Dividend distribution	–	–	–	–	–	(2,000,000)
As at 31 December 2018	<u>12,493,286</u>	<u>51,108</u>	<u>(306,203)</u>	<u>10,346,945</u>	<u>11,855,025</u>	<u>25,832,904</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

51. STATEMENT OF FINANCIAL POSITION AND MOVEMENT OF RESERVES OF THE BANK (Continued)

(1) Reserve movement of the Bank (Continued)

	2017					
	Capital reserve	Investment revaluation reserve	Actuarial changes reserve	Surplus reserve	General reserve	Retained earnings
As at 1 January 2017	<u>9,201,954</u>	<u>53,219</u>	<u>(313,434)</u>	<u>8,580,210</u>	<u>9,345,040</u>	<u>16,248,885</u>
Profit for the year	–	–	–	–	–	8,769,424
Other comprehensive income	<u>–</u>	<u>(162,892)</u>	<u>182,783</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total comprehensive income for the year	<u>–</u>	<u>(162,892)</u>	<u>182,783</u>	<u>–</u>	<u>–</u>	<u>8,769,424</u>
Contribution from non-controlling interests	3,291,332	–	–	–	–	–
Appropriation to surplus reserve	–	–	–	876,942	–	(876,942)
Appropriation to general reserve	–	–	–	–	1,158,882	(1,158,882)
Dividend distribution	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1,860,000)</u>
As at 31 December 2017	<u>12,493,286</u>	<u>(109,673)</u>	<u>(130,651)</u>	<u>9,457,152</u>	<u>10,503,922</u>	<u>21,122,485</u>

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

52. BENEFITS AND INTERESTS OF DIRECTORS AND SUPERVISORS

- (1) According to section 383 of the Hong Kong Companies Ordinance, the emoluments and retirement benefits of directors are disclosed in Note 10, payments or benefits in respect of termination of directors' services, material interests of directors in transactions, arrangements or contracts entered into by the Bank or another company in the same group of companies, and consideration provided to or receivable by third parties for making available the services of a person as a director or in any other capacity is not material during the year 2018 (2017: not material).
- (2) Loans and credit transactions provided to certain controlled body corporates and connected entities of directors and supervisors

Name of the borrower	As at	As at	Maximum	Amounts fallen	Provisions	Term	Interest Rate (%)	Security
	31 December 2017	31 December 2018	outstanding during the year 2018	due but not been paid As at 31 December 2018	As at 31 December 2018			
Connected entities	7,630,808	11,127,586	12,159,586	0	148,304	1-10 years	4.35-6.65	Guarantee, certificates of deposit, construction in process, real estate, etc.

53. EVENT AFTER THE REPORTING PERIOD

On 26 March 2019, as proposed by the Board of Directors of the Bank, the Bank passed the 2018 annual profit distribution plan, which was disclosed in Note 15 Dividends, Note 40 Surplus Reserve and Note 41 General Reserve. It can take effect after the resolution is passed at the shareholders' meeting.

Besides the items mentioned above, The Group and the Bank have no significant events after the reporting period.

Unaudited Supplemental Financial Information

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

LIQUIDITY RATIO

(Expressed in percentage)

THE GROUP

	As at 31 December 2018	As at 31 December 2017
RMB current assets to RMB current liabilities	51.71	44.14
Foreign currency current assets to foreign currency liabilities	<u>33.00</u>	<u>57.43</u>

LIQUIDITY COVERAGE RATIO

THE GROUP

	As at 31 December 2018	As at 31 December 2017
Liquidity coverage ratio (expressed in percentage)	<u>207.66</u>	<u>180.04</u>

Unaudited Supplemental Financial Information (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

CURRENCY CONCENTRATIONS

THE GROUP

	Equivalent in Renminbi			Total
	US Dollars	Hong Kong Dollars	Others	
As at 31 December 2018				
Spot assets	7,801.7	109.5	158.0	8,069.2
Spot liabilities	(7,128.5)	(181.0)	(20.2)	(7,329.7)
Forward purchases	1,494.1	—	—	1,494.1
Forward sales	1,878.9	—	—	1,878.9
Net position	288.4	(71.5)	137.8	354.7

	Equivalent in Renminbi			Total
	US Dollars	Hong Kong Dollars	Others	
As at 31 December 2017				
Spot assets	6,597.8	94.3	143.6	6,835.7
Spot liabilities	(5,958.1)	(198.4)	(102.8)	(6,259.3)
Forward purchases	3,091.8	—	—	3,091.8
Forward sales	(3,353.2)	—	—	(3,353.2)
Net position	378.3	(104.1)	40.8	315.0

Unaudited Supplemental Financial Information (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, the Group's international claims is the sum of cross-border claims in all currencies and local claims in foreign currencies.

International claims include balances with central banks, deposits with banks and other financial institutions, placements with banks and other financial institutions and loans and advances to customers.

International claims are disclosed based on different countries or regions. A country or region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfer. Risk transfer is only made if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	Banks and other financial institutions	Non-bank private sectors	Total
As at 31 December 2018	4,571.2	3,230.6	7,801.8
Asia Pacific (not including China)			
– of which attributed to Hong Kong	38.6	–	38.6
North America	304.2	–	304.2
Europe	104.0	–	104.0
Total	<u>4,979.4</u>	<u>3,230.6</u>	<u>8,210.0</u>

	Banks and other financial institutions	Non-bank private sectors	Total
As at 31 December 2017			
Asia Pacific (not including China)	3,302.3	2,684.0	5,986.3
– of which attributed to Hong Kong	194.6	–	194.6
North America	554.3	–	554.3
Europe	135.3	–	135.3
Total	<u>3,991.9</u>	<u>2,684.0</u>	<u>6,675.9</u>

Unaudited Supplemental Financial Information (Continued)

For the year ended 31 December 2018

(Amounts in thousands of Renminbi, unless otherwise stated)

SUMMARY OF INFORMATION ON GEOGRAPHICAL SEGMENTS

When information is prepared based on the geographical segments, total operating income is allocated in accordance with the locations of branches recording the income. The table below sets forth the total operating income attributable to county area branches and urban area branches for the periods indicated.

	For the year ended 31 December 2018			For the year ended 31 December 2017		
	County Area ⁽¹⁾	Urban Area	Total	County Area ⁽¹⁾	Urban Area	Total
Net interest income	4,122.2	15,891.7	20,013.9	4,074.3	17,426.4	21,500.7
Net fee and commission income	970.0	1,095.8	2,065.8	1,064.6	1,231.0	2,295.6
Net trading gain	—	3,807.3	3,807.3	—	(36.8)	(36.8)
Other operating income, net	68.6	136.0	204.6	76.3	134.2	210.5
Total operating income	5,160.8	20,930.8	26,091.6	5,215.2	18,754.8	23,970.0
Internal transfer of income and expense	7,212.0	(7,212.0)	—	6,191.7	(6,191.7)	—
Income after adjustment	12,372.8	13,718.8	26,091.6	11,406.9	12,563.1	23,970.0

- (1) County Area refers to regions other than Urban Area of Chongqing City. The information of County Area also includes the information of the twelve village and township bank subsidiaries and the information of Qujing Branch.

Unaudited Supplemental Financial Information (Continued)

For the year ended 31 December 2018

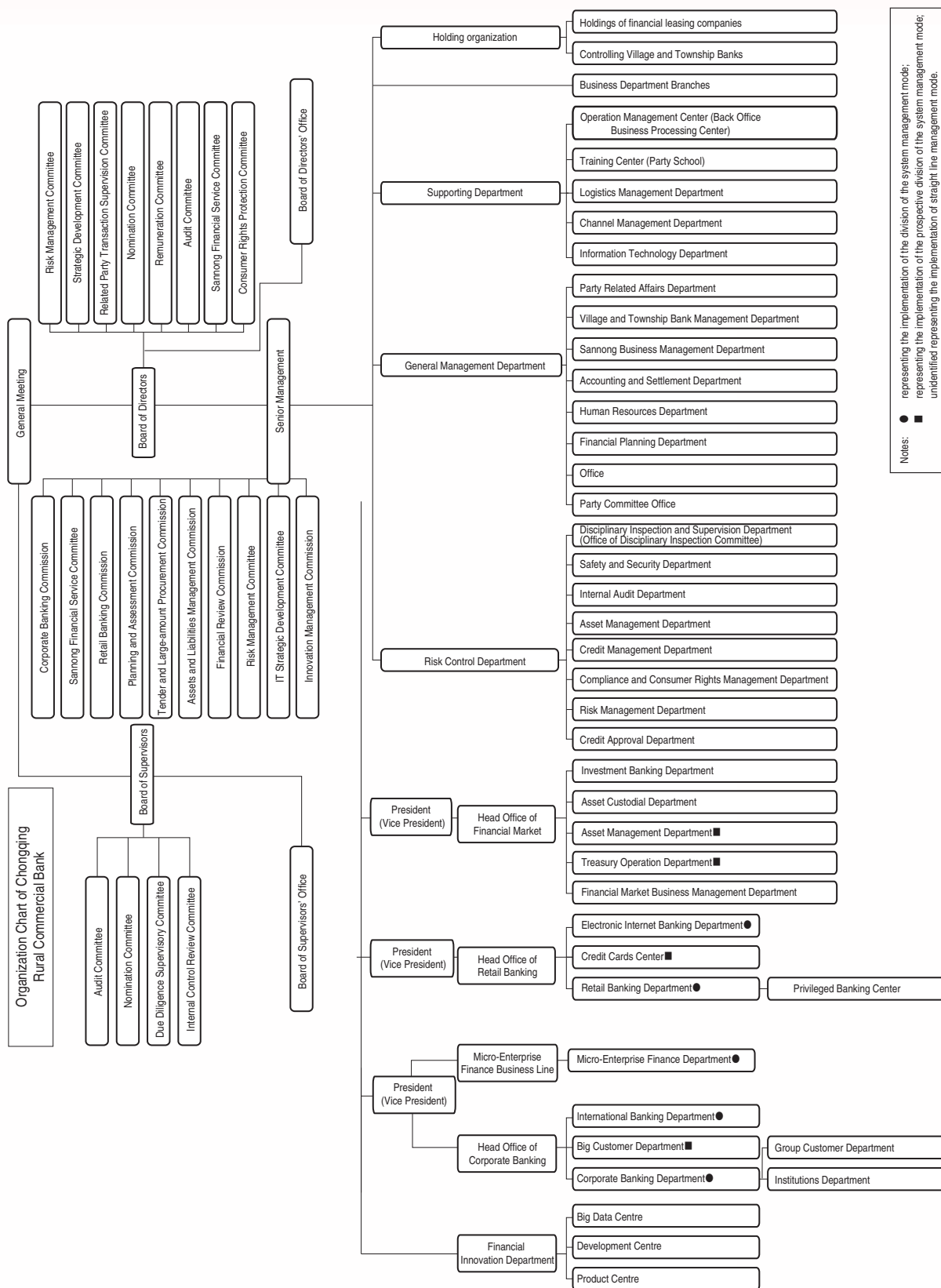
(Amounts in thousands of Renminbi, unless otherwise stated)

Abstract of geographical segments

(Expressed in percentage)	As at 31 December									
	2018		2017		2016		2015		2014	
	County Area	Urban Area	County Area	Urban Area	County Area	Urban Area	County Area	Urban Area	County Area	Urban Area
Deposits	68.61	31.39	67.83	32.17	67.54	32.46	66.52	33.48	66.30	33.70
Loans	46.12	53.88	44.67	55.33	46.98	53.02	47.87	52.13	50.18	49.82
Assets	47.94	52.06	45.65	54.35	48.59	51.41	46.73	53.27	44.86	55.14
Loan-deposit ratio	<u>41.58</u>	<u>106.16</u>	<u>38.94</u>	<u>101.70</u>	<u>40.33</u>	<u>94.70</u>	<u>41.10</u>	<u>88.95</u>	<u>44.74</u>	<u>87.40</u>

(Expressed in percentage)	As at 31 December									
	2018		2017		2016		2015		2014	
	County Area	Urban Area	County Area	Urban Area	County Area	Urban Area	County Area	Urban Area	County Area	Urban Area
Return on average total assets	0.96	1.01	1.00	1.10	1.04	1.07	1.06	1.10	1.20	1.23
Net fee and commission income to operating income	7.84	7.99	9.33	9.80	9.84	9.72	5.60	8.08	4.18	6.62
Cost-to-income ratio	<u>33.49</u>	<u>27.52</u>	<u>36.85</u>	<u>31.34</u>	<u>37.51</u>	<u>34.46</u>	<u>35.35</u>	<u>34.01</u>	<u>41.27</u>	<u>35.17</u>

Organization Chart



Branches and Subsidiaries

Branches

Qujing Branch

Address: Block 2 and 3, "Renhe Garden,
Yunding Town Center" Dahua Bridge,
Qilin West Road, Qilin District, Qujing
City, Yunnan Province, China

Postal Code:655000

Tel:0874-3193599

Fax:0874-3193565

Liangjiang Branch

Address: No. 21, 23, 25 Jintong Road, New
North Zone, Chongqing City, China

Postal Code:401122

Tel:023-88502278

Fax:023-88502278

Wanzhou Branch

Address: No. 91 Taibai Road, Wanzhou District,
Chongqing City, China

Postal Code:404100

Tel:023-58156261

Fax:023-58156260

Jiangjin Branch

Address: Block E, Jinhui Garden, Binjiang West
Road, Jijiang Street Office, Jiangjin
District, Chongqing City, China

Postal Code:402260

Tel:023-47528840

Fax:023-47522632

Hechuan Branch

Address: No. 2 Jiuchang Road, Hechuan District,
Chongqing City, China

Postal Code:401520

Tel:023-42835185

Fax:023-42841214

Fuling Branch

Address: Block 1, Hongfu Building No. 55
Xinghua Middle Road, Fuling District,
Chongqing City, China

Postal Code:408000

Tel:023-72238022

Fax:023-72237722

Sub-branches

Yuzhong Branch

Address: No. 142 Xinhua Road, Yuzhong District,
Chongqing City, China

Postal Code:400011

Tel:023-63716557

Fax:023-63716557

Jiangbei Branch

Address: 1-1, No. 10, Yanghe Road East,
Jiangbei District, Chongqing City,
China

Postal Code:400020

Tel:023-67864030

Fax:023-67723755

Shapingba Branch

Address: No. 118 Xiaoyanggong Bridge,
Shapingba District, Chongqing City,
China

Postal Code:400030

Tel:023-65330998

Fax:023-65332566

Xiyong Branch

Address: No. 28 Xiyong Avenue, Shapingba
District, Chongqing City, China

Postal Code:401333

Tel:023-65518880

Fax:023-65518880

Dadukou Branch

Address: 3/F, Block A1, Tianchenhuafu, Chunhui
Road Street, Dadukou District,
Chongqing City, China

Postal Code:400084

Tel:023-68836636

Fax:023-68901484

Nan'an Branch

Address: No. 24 Jiangnan Avenue, Nanping,
Nan'an District, Chongqing City, China

Postal Code:400060

Tel:023-62947517

Fax:023-62947517

Branches and Subsidiaries

Jiulongpo Branch

Address: No. 2 Xijiao Road, Yang Jia Ping,
Jiulongpo District, Chongqing City,
China Postal Code:400050

Tel:023-86105779

Fax:023-68437557

Beibei District

Address: No. 20 Beixia West Road, Beibei,
District, Chongqing City, China

Postal Code:400700

Tel:023-68864083

Fax:023-68862728

Yubei Branch

Address: 1-1, Block 1, No. 91 Shuanglong
Avenue, Shuanglonghu Street, Yubei
District, Chongqing City, China

Postal Code:401120

Tel:023-67813712

Fax:023-67822014

Ba'nán Branch

Address: No. 145 Longzhou Avenue, Ba'nán
District, Chongqing City, China

Postal Code:401320

Tel:023-66212977

Fax:023-66222960

Wansheng Branch

Address: No. 36 Wandong North Road,
Wansheng District, Chongqing City,
China Postal Code:400800

Tel:023-48299505

Fax:023-48299504

Changshou Branch

Address: No. 13 Xiangyang Road, Fengcheng
Street Office, Changshou District,
Chongqing City, China

Postal Code:401220

Tel:023-40245293

Fax:023-40240574

Yongchuan Branch

Address: No. 399, Honghe Middle Road,
Yongchuan District, Chongqing City,
China

Postal Code:402160

Tel:023-49863765

Fax:023-49885099

Nanchuan Branch

Address: No. 28 Jinpo Avenue, Nanchuan
District, Chongqing City, China

Postal Code:408400

Tel:023-71423626

Fax:023-71429898

Qijiang Branch

Address: No. 34 Jiulong Avenue, Wenlong
Street, Qijiang District, Chongqing
City, China

Postal Code:401420

Tel:023-48663010

Fax:023-48658598

Tongnan Branch

Address: No. 4, Xingtong Avenue, Guilin Street
Office, Tongnan County, Chongqing
City, China

Postal Code:402660

Tel:023-44551908

Fax:023-44554249

Tongliang Branch

Address: No. 102 Zhongxing Road, Bachuan
Street, Tongliang County, Chongqing
City, China

Postal Code:402560

Tel:023-45682975

Fax:023-45682975

Dazu Branch

Address: Fu No. 2 No.390 Wuxing Avenue,
Tangxiang Street Office, Dazu County,
Chongqing City, China

Postal Code:402360

Tel:023-43711711

Fax:023-43722323

Rongchang Branch

Address: No. 106 Haitang Avenue, Changzhou
Street Office, Rongchang County,
Chongqing City, China

Postal Code:402460

Tel:023-46730454

Fax:023-46739122

Bishan Branch

Address: No. 4 Bitong Road, Bicheng Street
Office, Bishan County, Chongqing City
China

Postal Code:402760

Tel:023-41427834

Fax:023-41427834

Liangping Branch

Address: No. 1, Block 26, Minghao Commercial
Area, Liangshan Town, Liangping
County, Chongqing City, China

Postal Code:405200

Tel:023-53223401

Fax:023-53223401

Chengkou Branch

Address: No. 30 South Street, Gecheng Town,
Chengkou County, Chongqing City,
China

Postal Code:405900

Tel:023-59221503

Fax:023-59221503

Fengdu Branch

Address: No. 187 2nd Shangye Road, Sanhe
Town, Fengdu County, Chongqing
City, China

Postal Code:408299

Tel:023-70736661

Fax:023-70736533

Dianjiang Branch

Address: No. 12 Renmin East Road, Guixi Town,
Dianjiang County, Chongqing City,
China

Postal Code:408300

Tel:023-74512937

Fax:023-74685719

Zhong County Branch

Address: No. 49 Ba Wang Road, Zhongzhou
Town, Zhong County, Chongqing City,
China

Postal Code:404300

Tel:023-54235902

Fax:023-54243942

Kai County Branch

Address: (Shimin Plaza) Kaizhou Avenue,
Hanfeng Street Office, Kai County,
Chongqing City, China

Postal Code:405400

Tel:023-52250812

Fax:023-52250253

Yunyang Branch

Address: No. 1335 Yunjiang Avenue, Qinglong
Subdistrict, Yunyang County,
Chongqing City, China

Postal Code:404500

Tel:023-55161480

Fax:023-55161480

Branches and Subsidiaries

Fengjie Branch

Address: No. 32 Gongping Lane, Yufujie Road,
Fengjie County, Chongqing City,
China

Postal Code:404699

Tel:023-56560373

Fax:023-56560229

Wushan Branch

Address: No. 258 Guangdong East Road,
Wushan County, Chongqing City,
China

Postal Code:404700

Tel:023-57680904

Fax:023-67680904

Wuxi Branch

Address: Unit 1-1, No.7 Yanghe Garden, No.25,
Binhe Zhilu, Boyang Street, Wuxi
County, Chongqing City, China

Postal Code:405800

Tel:023-51529828

Fax:023-51520799

Qianjiang Branch

Address: No. 599 Jiefang Road, Qianjiang
District, Chongqing City, China

Postal Code:409000

Tel:023-79236496

Fax:023-79236496

Shizhu Branch

Address: No. 41 Xinkai Road, Nanbin Town,
Shizhu Tujia Autonomous County,
Chongqing City, China

Postal Code:409100

Tel:023-73332136

Fax:023-73337976

Wulong Branch

Address: No. 36 Furong Middle Road, Xiangkou
Town, Wulong County, Chongqing
City, China

Postal Code:408500

Tel:023-77723233

Fax:023-77722595

Xiushan Branch

Address: Shizi Street, Yuxiu Avenue, Zhonghe
Town, Xiushan Tujia and Miao
Autonomous County, Chongqing City,
China

Postal Code:409900

Tel:023-76662163

Fax:023-76671163

Youyang Branch

Address: No. 5, Taohuayuan Middle Road,
Taohuayuan Town, Youyang Tujia and
Miao Autonomous County, Chongqing
City, China

Postal Code:409800

Tel:023-75556144

Fax:023-75552534

Pengshui Branch

Address: Fu No. 4, 2 Shizui Street, Hanjia Street,
Pengshui Miao and Tujia Autonomous
County, Chongqing City, China

Postal Code:409600

Tel:023-78848842

Fax:023-78849965

Subsidiaries

Jiangsu Zhangjiagang CQRC Village and Township Bank Co., Ltd.

(江蘇張家港渝農商村鎮銀行股份有限公司)

Address: No. 487 and 489 Chang'an Road,
Zhangjiagang City, Jiangsu Province

Postal Code:215600

Tel:0512-58918959

Fax:0512-58918969

Sichuan Dazhu CQRC Village and Township Bank Co., Ltd.

(四川大竹渝農商村鎮銀行股份有限公司)

Address: Block H8/9, Huangge Commercial
Plaza, Xinhua Road East, Zhuyang
Town, Dazhu County, Sichuan
Province

Postal Code:635100

Tel:0818-6256123

Fax:0818-6256616

Yunnan Dali CQRC Village and Township Bank

(雲南大理渝農商村鎮銀行有限責任公司)

Address: No. 176 Yangbi Road, Economic
Development Zone, Dali Prefecture,
Yunnan Province

Postal Code:671000

Tel:0872-2188319

Fax:0872-2188667

Yunnan Xiangyun CQRC Village and Township Bank Co., Ltd.

(雲南祥雲渝農商村鎮銀行有限責任公司)

Address: No. 16, Block 11, "Xiangyun Yinxian
Garden", Wenyuan Road north side,
Xiangcheng Town, Xiangyun County,
Dali Prefecture, Yunnan Province

Postal Code:672100

Tel:0872-3997552

Fax:0872-3122977

Yunnan Heqing CQRC Village and Township Bank Co., Ltd.

(雲南鶴慶渝農商村鎮銀行有限責任公司)

Address: 15 Xinghe Road, Yunhe Town, Hexing
County, Dali Prefecture, Yunnan
Province

Postal Code:671500

Tel:0872-4125480

Fax:0872-4123500

Guangxi Luzhai CQRC Village and Township Bank Co., Ltd.

(廣西鹿寨渝農商村鎮銀行有限責任公司)

Address: 8 Guiyuan Road, Nanxin District,
Luzhai County, Liuzhou City, Guangxi
Province

Postal Code:545600

Tel:0772-6822818

Fax:0772-6822818

Fujian Shaxian CQRC Village and Township Bank Co., Ltd.

(福建沙縣渝農商村鎮銀行有限責任公司)

Address: Floor 1 & 2, North Tower of Yongshun
Building, Xincheng Central Road, Sha
County, Sanming City, Fujian Province

Postal Code:365050

Tel:0598-5758880

Fax:0598-5758880

Fujian Fuan CQRC Village and Township Bank Co., Ltd.

(福建福安渝農商村鎮銀行有限責任公司)

Address: 1 Guanhang Road, Cheng Bei, Fu'an
City, Fujian Province

Postal Code:355000

Tel:0593-8988916

Fax:0593-8988920

Branches and Subsidiaries

Yunnan Shangri-La CQRC Village and Township Bank Co., Ltd.

(雲南香格里拉農商村鎮銀行有限責任公司)

Address: 3AS-1-1, No. 7 Huajun Plaza,
Changzheng Da Road, Xianggelila
County, Yunnan Province

Postal Code: 674499

Tel: 0887-8980066

Fax: 0887-8989811

Yunnan Xishan CQRC Village and Township Bank Co., Ltd.

(雲南西山農商村鎮銀行有限責任公司)

Address: No. 924, 926, 928 Dianchi Road,
Dianchi National Tourist Resort,
Kunming City, Yunnan

Postal Code: 650000

Tel: 0871-68183750

Fax: 0871-68189273

Fujian Shi Shi CQRC Village and Township Bank Co., Ltd.

(福建石狮農商村鎮銀行有限責任公司)

Address: No. 2454, 2456, 2458, Hong Xing
International Building, Baqi Road,
Shishi City, Fujian Province

Postal Code: 362700

Tel: 0595-82269866

Fax: 0595-82268878

CQRC Financial Leasing Co., Ltd.

(渝農商金融租賃有限責任公司)

Address: Floor 24 and 25, Twin towers A,
Buildings 3, No. 10, Qingfeng North
Road, Yubei District, Chongqing,
China

Postal Code: 401121

Tel: 023-63569568

Fax: 023-63569555

Fujian Pingtan CQRC Village and Township Bank Co., Ltd.

(福建平潭農商村鎮銀行有限責任公司)

Address: A3-A6, 19th Pai, Kangde Huayuan
Villa, Tancheng Town, Pingtan
County, Fujian Province

Postal Code: 350400

Tel: 0591-86175991

Fax: 0591-86175991

Definitions

In this annual report, unless the context otherwise requires, the following terms shall have the meanings set out below.

Bank or our Bank	Chongqing Rural Commercial Bank Co., Ltd. (重慶農村商業銀行股份有限公司)
CBIRC Chongqing Office	China Banking and Insurance Regulatory Commission Chongqing Regulatory Bureau (中國銀行保險監督管理委員會重慶監管局)
CBIRC	China Banking and Insurance Regulatory Commission
CBRC	the former China Banking Regulatory Commission (中國銀行業監督管理委員會)
China Banking Regulatory Authority	the China Banking and Insurance Regulatory Commission and its agencies
CSRC	China Securities Regulatory Commission
CPC	Chinese Communist Party (中國共產黨)
Board of Directors or the Board	the board of directors of the Bank
Board of Supervisors	the board of supervisors of the Bank
County Area	the regions other than Urban Area of Chongqing City, including 29 districts and counties
Articles of Association	Articles of Association of Chongqing Rural Commercial Bank Co., Ltd.*, as amended from time to time
Domestic Shares	the ordinary shares issued by our Bank in the PRC, with a nominal value of RMB1.00 each
Group	Chongqing Rural Commercial Bank Co., Ltd. (重慶農村商業銀行股份有限公司) and its subsidiaries
RMB or Renminbi	Renminbi, the lawful currency of the PRC
yuan	RMB yuan
HKD or HK\$ or HK dollars	Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	Hong Kong Special Administrative Region, the PRC
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited

Definitions

Hong Kong Listing Rules	The Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
Two Highs and One Surplus Industry	indicates with high pollution, high energy consumption and excess capacity
Listing	the listing of H shares on the Main Board of the Hong Kong Stock Exchange
rural commercial bank	a short-hand reference to rural and commercial bank (農村商業銀行)
Sannong	a short-hand reference to the Chinese pronunciation of the phrase “agriculture, rural areas and farmers”
Three-Transformation	the strategy for future development of the Bank, that is, characteristic operation, streamlining the management and fostering good corporate culture
village and township banks	bank institutions that are approved by China Banking Regulatory Authority to be incorporated in rural areas to provide services to local farmers or enterprises
UI	User Interface
ETC	Electronic Toll Collection System
Shareholder(s)	Shareholder(s) of the Bank
IFRS 9	International Financial Reporting Standards 9 Financial Instruments
IAS 39	International Accounting Standards 39 Financial Instruments: Recognition and Measurement
Central bank	the People’s Bank of China
PRC or China	the People’s Republic of China
Reporting Period	for the twelve months period from 1 January 2018 to 31 December 2018