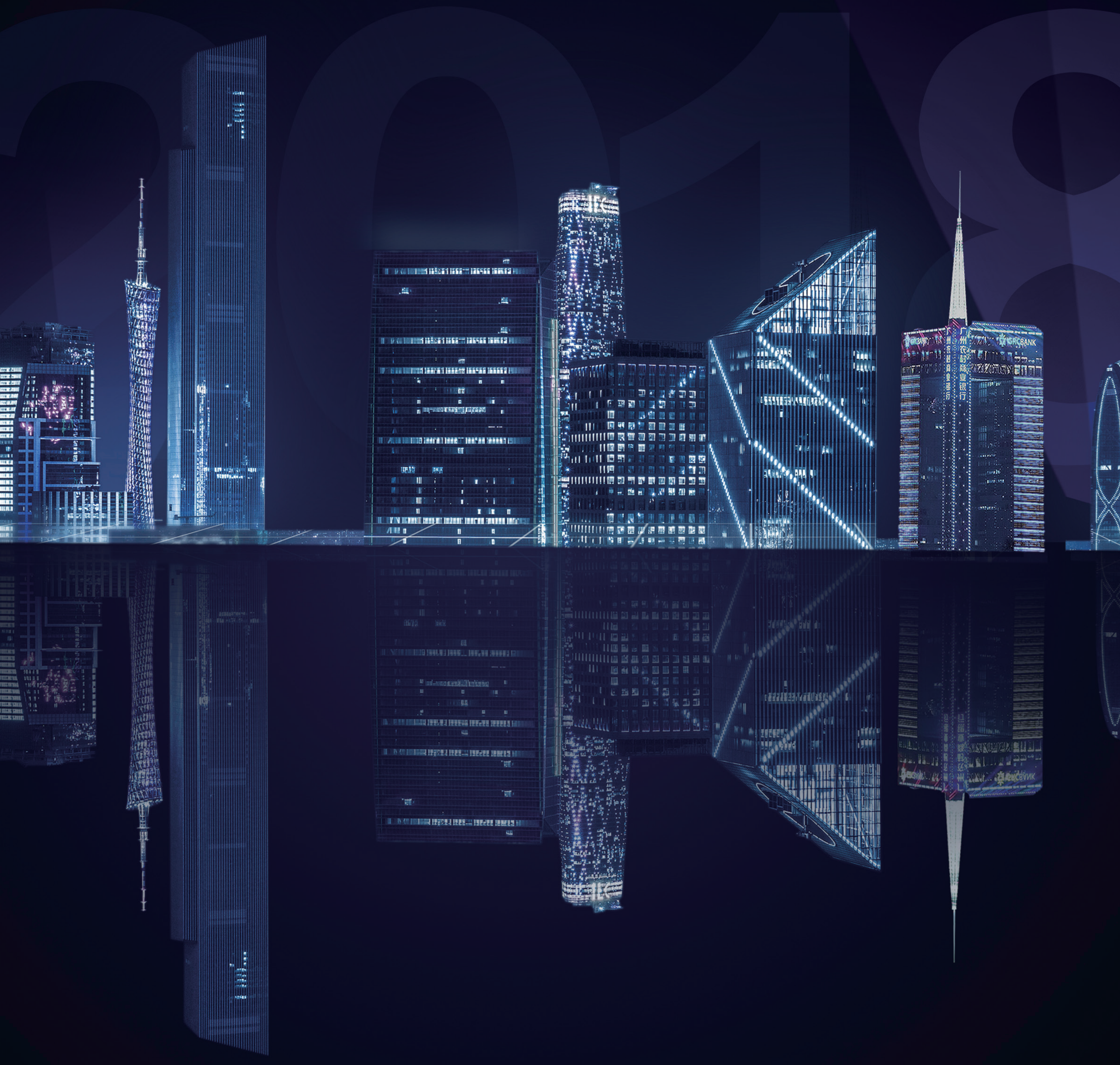
广州农商银行
GUANGZHOU RURAL COMMERCIAL BANK

Guangzhou Rural Commercial Bank Co., Ltd.

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

Stock Code : 1551

ANNUAL REPORT 2018



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COMPANY PROFILE

I. COMPANY PROFILE

(I) Official Name

1. Official Chinese Name: 廣州農村商業銀行股份有限公司
   (Abbreviated as "廣州農村商業銀行")
2. Official English Name: Guangzhou Rural Commercial Bank Co., Ltd.
   (Abbreviated as "GRCB")

(II) Registered Capital: RMB9,808,268,539.00

(III) Legal Representative: Mr. Wang Jikang

(IV) Authorized Representatives: Mr. Wang Jikang and Mr. Ngai Wai Fung

(V) Joint Company Secretaries: Ms. Zheng Ying and Mr. Ngai Wai Fung

(VI) H-Share Listing Stock Exchange: The Stock Exchange of Hong Kong Limited

(VII) Stock Name and Code: GRCB (1551.HK)

(VIII) Registered Address: No. 9 Yingri Road, Huangpu District, Guangzhou, PRC

(IX) Principal Place of Business in Hong Kong: 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong

(X) Scope of Business: Monetary and financial services

(XI) Contact Address: No. 1 Huaxia Road, Pearl River New Town, Tianhe District, Guangzhou, Guangdong Province, PRC

Postal Code: 510623

Website: www.grcbank.com

(XII) Place of Inspection of the Annual Report: Office of the Board of Directors of the Bank

(XIII) Auditor: PricewaterhouseCoopers

(XIV) Legal Advisor as to PRC Law: Guangdong Qiyuan Law Office

(XV) Legal Advisor as to Hong Kong Law: King & Wood Mallesons

(XVI) H-Share Registrar: Computershare Hong Kong Investor Services Limited

(XVII) Domestic Shares Depository: China Securities Depository and Clearing Corporation Limited

(XVIII) Other Relevant Information of the Company

Date of Registration: 9 December 2009

Registration Authority: Guangzhou Administration for Industry and Commerce

Unified Social Credit Code: 914401017083429628

Financial License Registration No.: B1048H244010001

Customer Service and Complaint Telephone No.: +8695313

Investor Relations Telephone No.: +86(020)28019324

Email Address: ir@grcbank.com

II. BRANCHES AND SUBSIDIARIES

(I) Branches

The following table sets forth the basic information of the branches of the Bank:

No.	Name of branch	Business address	Postal code	Contact telephone number	Facsimile number	Remarks
1	Baiyun Sub-branch	1/F to 3/F, No. 466–472 Huangshi West Road, Baiyun District, Guangzhou	510425	020-86295397	NA	—
2	Conghua Sub-branch	1/F and 2/F, No. 98 Hebin North Road, Chengjiao Subdistrict, Conghua District, Guangzhou	510900	020-87999606	NA	—
3	Panyu Sub-branch	No. 239 Qinghe East Road, Shiqiao Subdistrict, Panyu District, Guangzhou	511400	020-34619802	NA	—
4	Haizhu Sub-branch	2/F, No. 173-1 Changgang Middle Road, Haizhu District, Guangzhou	510250	020-84278835	NA	—
5	Huadu Sub-branch	South Tower, No. 21 Gongyi Road, Xinhua Subdistrict, Huadu District, Guangzhou	510800	020-36911004	020-36911006	—
6	Huanan Xincheng Sub-branch	East Side of Tangxi, Village Entrance, Yingbin Road South, Tangbuxi Village, Nancun Town, Panyu District, Guangzhou	511442	020-34693625	NA	—
7	Huangpu Sub-branch	No. 138 Fengle North Road, Huangpu District, Guangzhou	510700	020-32204220	NA	—
8	Liwan Sub-branch	No. 89 Huadi Avenue Central, Liwan District, Guangzhou	510380	020-81617655	NA	—
9	Airport Economic Zone Sub-branch	Renhe Village, Renhe Town, Baiyun District, Guangzhou	510470	020-86451956	NA	—
10	Tianhe Sub-branch	1/F to 2/F, No. 335 Longkou West Road, Tianhe District, Guangzhou	510635	020-38477288	020-38478080	—
11	Zengcheng Sub-branch	No. 88-15, 16, 17, 18, 19, 20, 21 and 22 Fuyou Road, Licheng Subdistrict, Zengcheng District, Guangzhou, and Rooms 201, 202, 210 and 211, No. 55 Zuanshi Street, Hehui Square, Licheng Subdistrict, Zengcheng District, Guangzhou	511300	020-32162530	NA	—
12	Nansha Sub-branch	2/F, No. 2 Jixiang Road, Dongchong Town, Panyu District, Guangzhou	511453	020-34929060	NA	—
13	Free Trade Zone Nansha Branch	No. 56 Xinxing Road, Wanqingsha Town, Nansha District, Guangzhou	511462	020-34929298	NA	Branch
14	Foshan Branch	Rooms 103 and 104 on 1/F and Room 202 on 2/F of Tower 1, Rooms 1603 to 1605 on 16/F and Rooms 1701 to 1708 on 17/F of Block 2, Tower 1, No. 26 Jihua First Road, Chancheng District, Foshan	528000	0757-82581028	0757-82581059	Branch outside Guangzhou
15	Qingyuan Branch	Shops on 1/F to 3/F, Block 1, Oriental Paris, No. 5 Fengxiang Avenue, Qingcheng District, Qingyuan	511500	0763-3910555	NA	Branch outside Guangzhou
16	Zhaoqing Branch	Shop 01 on 1/F and Shops 01-07 on 2/F, Cultural Innovation Building, No. 5 Yuelong North Road, Ruizhou District, Zhaoqing, Guangdong Province	526040	0758-2812835	0758-2812835	Branch outside Guangzhou
17	Heyuan Branch	Rooms 1601-1602 and Rooms 101-102 on 1/F, Changhong Building (Changhong Financial Center), H Road West, Yanjiang Road North, Xueqianbaxiaoqu, Xinshi District, Heyuan (河源市新市區學前壩小區沿江路北邊H路西邊長鴻大廈（長鴻金融中心）第1層101-102號、1601-1602號)	517000	0762-8808225	NA	Branch outside Guangzhou
18	Guangdong Free Trade Zone Hengqin Branch	B6 to B10 Penguin Hotel Commercial Street, Chimelong International Ocean Tourist Resort, Fuxiang Bay, Hengqin New District, Zhuhai	519031	0756-2993600	NA	Branch outside Guangzhou

(II) Subsidiaries

The following table sets forth the basic information of the subsidiaries of the Bank:

No.	Company name	Registered address	Postal code	Contact telephone number
1	Beijing Mentougou Zhujiang County Bank Co., Ltd.	No. 8 Shilong South Road, Yongding Town, Mentougou District, Beijing	102300	010-60865137
2	Dalian Bonded Area Zhujiang County Bank Co., Ltd.	Zone 3 on 1/F and Zone 2 on 8/F, Block E, International Trade Center, No. 205 Huanghaixi Fourth Road, Dalian Bonded Area, Liaoning Province	116600	0411-66771959
3	Laiwu Zhujiang County Bank Co., Ltd.	Yanjie Building, No. 19 Daihuayuan, Longtan East Street, Laicheng District, Laiwu, Shandong Province	271100	0634-5662720
4	Yantai Fushan Zhujiang County Bank Co., Ltd.	No. 133-216 Fuhai Road, Fushan District, Yantai, Shandong Province	265500	0535-6319002
5	Laizhou Zhujiang County Bank Co., Ltd.	No. 672 Wenhua East Street, Laizhou, Shandong Province	261400	0535-2750000
6	Qingdao Chengyang Zhujiang County Bank Co., Ltd.	No. 160-12 Zhengyang Middle Road, Chengyang District, Qingdao	266109	0532-67762806
7	Haiyang Zhujiang County Bank Co., Ltd.	No. 181 Haiyang Road, Haiyang, Shandong Province	265100	0535-3107730
8	Zhengzhou Zhujiang County Bank Co., Ltd.	No. 101-1, 1/F,No. 501-2, 5/F,No. 501-3, 5/F, Expo Building, No.8 Business Outer Ring Road, Zhengzhou Area (Zhengdong), Free Trade Zone, Henan Province	450000	0371-89959016
9	Xinyang Zhujiang County Bank Co., Ltd.	Block 10, Intersection of Xinqi Avenue and Xinba Street, Yangshan New District, Pingqiao District, Xinyang, Henan Province	464000	0376-6199166
10	Anyang Zhujiang County Bank Co., Ltd.	Northeast Corner of the intersection of Wenfeng Avenue and Chaoyang Road, Wenfeng District, Anyang, Henan Province	455000	0372-2223000
11	Huixian Zhujiang County Bank Co., Ltd.	No. 838 East Section of Gongcheng Avenue, Huixian, Xinxiang, Henan Province (河南省新鄉市輝縣市共城大道東段838號)	453600	0373-6223005
12	Jiangsu Xuyi Zhujiang County Bank Co., Ltd.	5-1001, Wuzhou International Plaza Phase II, Donghu South Road, Xuyi County, Huaian, Jiangsu Province	211700	0517-88558207
13	Jiangsu Qidong Zhujiang County Bank Co., Ltd.	No. 605, 609 and 617 Jianghai Middle Road, Huilong Town, Qidong, Jiangsu Province	226200	0513-83904316
14	Suzhou Wuzhong Zhujiang County Bank Co., Ltd.	No. 51 Jinshan Road, Mudu Town, Wuzhong District, Suzhou, Jiangsu Province	215101	0512-80969696
15	Changning Zhujiang County Bank Co., Ltd.	No. 101 and 102 Qunying West Road, Changning, Hunan Province	421500	0734-7330833
16	Jizhou Zhujiang County Bank Co., Ltd.	No. 33 Yangming West Road, Jizhou District, Ji'an, Jiangxi Province	343000	0796-2066666

No.	Company name	Registered address	Postal code	Contact telephone number
17	Pengshan Zhujiang County Bank Co., Ltd.	No. 223 Caishan East Road, Pengshan District, Meishan, Sichuan Province	620860	028-37666086
18	Xinjin Zhujiang County Bank Co., Ltd.	No. 4–4, 1/F of No. 5 and New No. 6 Wujin West Road, Xinjin County, Chengdu	611430	028-82580021
19	Guanghan Zhujiang County Bank Co., Ltd.	No. 188 Section 1 of Zhongshan Avenue South, Guanghan, Sichuan Province	618300	0838-5513187
20	Sanshui Zhujiang County Bank Co., Ltd.	Shops 103, 104 and 105 of 1/F and 2/F and 3/F, No. 9 Nanfeng Avenue, Yundonghai Subdistrict, Sanshui District, Foshan	528100	0757-87791698
21	Zhongshan Dongfeng Zhujiang County Bank Co., Ltd.	No. 63 Donghai Second Road, Dongfeng Town, Zhongshan, Guangdong Province	528425	0760-22787010
22	Heshan Zhujiang County Bank Co., Ltd.	Room 201 of No. 195, 187 and 185, and No. 189-193 (odd numbers only), Zhongshan Road, Shaping Town, Heshan, Guangdong Province (廣東省鶴山市沙坪鎮中山路189-193單號，185、187、195號201房)	529700	0750-8818081
23	Shenzhen Pingshan Zhujiang County Bank Co., Ltd.	32/F and 33/F of Building H and Shops 165-166, 1st Phase of Liuhe Commercial Plaza, Pingshan Subdistrict, Pingshan District, Shenzhen	518118	0755-36669888
24	Dongguan Huangjiang Zhujiang County Bank Co., Ltd.	No. 1 Yuanwuwei Road, Yuanwuwei Village, Huangjiang Town, Dongguan	523756	0769-82183199
25	Xingning Zhujiang County Bank Co., Ltd.	No. 2 Shuguang South Road, Xingning, Guangdong Province	514500	0753-8682651
26	Hunan Zhuzhou Zhujiang Rural Commercial Bank Co., Ltd.	No. 006 Xiangyang North Road, Lukou Town, Zhuzhou County, Hunan Province	412100	0731-27618647
27	Zhujiang Financial Leasing Co., Ltd.	11/F, Financial Building, No. 171 Haibin Road, Nansha District, Guangzhou	511455	020-29168100

III. MAJOR HONORS RECEIVED IN 2018

No.	Honors	Awarding/granting authority	Obtaining time
1	The Most Popular New Stock Company among Investors at the Golden Hong Kong Stocks Award 2017 (2017年金港股最受投資者歡迎新股公司)	Zhitong Finance (智通財經) and Tonghuashun (同花順)	January 2018
2	Junding Prize for Investment Banking of Rural Commercial Banks in China in 2018 (2018中國區農商行投行君鼎獎)	Securities Times (《證券時報》)	April 2018
3	Obtained the long-term credit rating: Baa2 Investment Grade, the first credit rating issued to the Bank	Moody's	April 2018
4	Obtained the long-term credit rating: BBB Investment Grade, the first credit rating issued to the Bank	S&P	May 2018
5	Best Financial Innovation Award (最佳金融創新獎)	The Banker, Institute of Finance of Chinese Academy of Social Sciences, Central University of Finance and Economics	June 2018
6	Ranked 1092nd in Forbes Global 2000	Forbes	June 2018
7	Prize for Excellent Inclusive Financial Institution in Rural Finance in China (全國農村金融優秀普惠金融機構)	Jointly issued by China Cooperation Times (中國合作時報社), China Finance Magazine (中國金融雜誌社) and Financial Brand Institute of Central University of Finance and Economics (中央財經大學金融品牌研究所)	July 2018
8	Ranked 192nd in the list of Top 1000 Global Banks in 2018 (2018全球銀行1000強)	The Banker	July 2018
9	Top 10 "Green Finance" in the list of Value Management of Chinese Commercial Banks (中國商業銀行價值經營榜"綠色金融"10強)	National Business Daily (《每日經濟新聞》)	August 2018
10	Top 500 Enterprises in Guangdong (廣東企業500強), Top 100 Enterprises in Service Industry of Guangdong (廣東服務業100強)	Guangdong Provincial Enterprise Confederation and Guangdong Provincial Association of Entrepreneurs	August 2018
11	Top 500 Enterprises in China (中國企業500強)	China Enterprise Confederation	September 2018
12	Best Rural Commercial Bank in Strategic Management (最佳戰略管理農商銀行)	The Banker	September 2018
13	Ranked 209th globally and 27th among Chinese enterprises in the list of the World's Best Employers 2018 of Forbes (福布斯2018世界最佳僱主)	Forbes	October 2018
14	Enterprise with Integrity in Guangdong Province of 2018 (2018年廣東省誠信企業)	Guangdong Province Enterprise Integrity Development Association (廣東省企業誠信建設促進會)	November 2018
15	Best Inclusive Finance Bank of 2018 (2018年度最佳普惠金融銀行)	Information Times (《信息時報》)	December 2018
16	Award of Best Listed Company with Shareholders' Return (最佳股東回報上市公司獎)	Sina Finance (新浪財經)	December 2018
17	Internet Finance Bank with Excellent Competitiveness (卓越競爭力互聯網金融銀行)	China Business Journal (《中國經營報》)	December 2018
18	Bank with Highest Growth Potential (最具成長性銀行)	eastmoney.com (東方財富網)	December 2018
19	China E-bank Golden Award – Best Direct Selling Bank Award 2018 (中國電子銀行金榜獎–2018年最佳直銷銀行)	China Financial Certification Authority (CFCA)	December 2018

The financial information of the Group set forth in this annual report is prepared on a consolidated basis in accordance with IFRS and expressed in Renminbi unless otherwise stated.

Item (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 Change (%)**			
Net interest income	13,271.65	11,694.53	13.49	10,670.82	11,595.89	12,006.10
Net fee and commission income	1,547.52	2,291.39	(32.46)	2,976.39	2,889.61	1,742.29
Operating income	20,666.67	13,478.66	53.33	15,239.79	16,213.15	13,858.79
Operating expenses	(5,984.34)	(5,164.19)	15.88	(5,457.19)	(5,773.14)	(5,281.99)
Impairment losses[1]	(5,968.94)	(787.85)	657.62	(3,259.75)	(4,010.90)	(1,521.95)
Profit before income tax	8,713.39	7,526.62	15.77	6,522.85	6,429.11	7,054.85
Net profit	6,832.16	5,890.99	15.98	5,106.35	5,000.34	5,481.40
Net profit attributable to shareholders of the Bank	6,526.34	5,708.72	14.32	5,025.59	5,001.02	5,374.69
Per share (in RMB)			**Change**			
Net assets per share attributable to shareholders of the Bank	5.39	4.69	0.70	4.40	4.14	3.76
Basic earnings per share (Expressed in RMB per share)	0.67	0.63	0.04	0.62	0.61	0.66

Item (Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2018	2017	Comparison between 2018 and 2017	2016	2015	2014
Scale indicators						
Total assets	763,289.60	735,713.66	27,575.94	660,951.12	582,807.20	466,607.62
Among which: loans and advances to customers, net	364,967.97	285,701.70	79,266.27	237,934.77	216,779.76	180,720.30
Total liabilities	707,708.53	687,235.94	20,472.59	623,111.42	547,111.07	434,020.85
Among which: customers deposits	542,335.16	488,671.86	53,663.30	423,742.04	391,061.88	354,438.56
Equity attributable to shareholders of the Bank	52,861.33	46,044.52	6,816.81	35,845.24	33,777.95	30,660.61
Non-controlling interests	2,719.74	2,433.20	286.54	1,994.46	1,918.18	1,926.16
Total equity	55,581.07	48,477.72	7,103.35	37,839.70	35,696.13	32,586.77

SUMMARY OF FINANCIAL DATA

Item (Expressed in percentage)	For the year ended 31 December 2018	2017	Comparison between 2018 and 2017	2016	2015	2014
Profitability indicators						
Return on average total assets(2)	0.91	0.84	0.07	0.82	0.95	1.30
Return on average equity(3)	13.13	13.65	(0.52)	13.89	14.65	18.16
Net interest spread(4)	2.28	1.65	0.63	1.99	2.31	2.67
Net interest margin(5)	2.12	1.70	0.42	1.98	2.50	2.91
Net fee and commission income to operating income(6)	7.49	17.00	(9.51)	19.53	17.82	12.57
Cost-to-income ratio(7)	28.05	37.11	(9.06)	32.77	28.37	30.95

Item (Expressed in percentage)	For the year ended 31 December 2018	2017	Comparison between 2018 and 2017	2016	2015	2014
Assets quality indicators						
Non-performing loan ratio(8)	1.27	1.51	(0.24)	1.81	1.8	1.54
Provision coverage ratio(9)	276.64	186.75	89.89	178.58	170.79	183.37
Allowance to total loans(10)	3.52	2.83	0.69	3.24	3.08	2.83
Capital adequacy indicators			**Change**			
Core Tier 1 capital adequacy ratio(11)	10.50	10.69	(0.19)	9.90	10.28	11.16
Tier 1 capital adequacy ratio	10.53	10.72	(0.19)	9.92	10.29	11.17
Capital adequacy ratio	14.28	12.00	2.28	12.16	12.76	14.45

Expressed in percentage	For the year ended 31 December 2018	2017	Comparison between 2018 and 2017	2016	2015	2014
Other indicators						
Loan-to-deposit ratio(12)	69.70	60.17	9.53	58.03	57.19	52.47

Notes:

(1) In accordance with the new accounting standards on financial instruments and the disclosure requirements related to the financial statements, impairment losses in 2018 included credit impairment losses and impairment losses on other assets in the consolidated statement of profit or loss, while impairment losses from 2014 to 2017 were impairment losses on assets.

(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 period.

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

(4) Calculated as the difference between the average yield rate on total interest-earning assets and the average cost rate on total interest-bearing liabilities.

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

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

(7) Calculated by dividing operating expenses (excluding tax and surcharges) by operating income.

(8) Calculated by dividing the balance of non-performing loans by the total loans and advances to customers.

(9) Calculated by dividing the balance of allowance for loan losses by the balance of non-performing loans.

(10) Calculated by dividing the balance of allowance for loan losses by the total loans and advances to customers.

(11) Calculated in accordance with the "Administrative Measures for the Capital of Commercial Banks (Provisional)" promulgated by CBRC.

Core Tier 1 capital adequacy ratio = (core Tier 1 capital – reductions from respective capital)/risk-weighted assets *100%

Tier 1 capital adequacy ratio = (Tier 1 capital – reductions from respective capital)/risk-weighted assets *100%

Capital adequacy ratio = (total capital – reductions from respective capital)/risk-weighted assets *100%

(12) Calculated by dividing total loans and advances to customers by total deposits of customers.

CHAIRMAN'S STATEMENT

Transiting from the largest developing country to the world's second largest economy, China experienced a challenging and inspiring forty years from 1978 to 2018. A single spark can start a prairie fire while a crack can lead to ice breaking. Over such forty years, the great economic and financial developments have made people recognise that revolution is their hope and the general trend. Financial institutions have been the successful pioneer of such revolution and new era all the time. Confucius said, "at forty, free from perplexity" and as an adage goes, "ever-advancing as time goes by". Nevertheless, at the new starting point of history, the financial industry saw the gradual disappearing of existing advantages, experiences and opportunities under the new normal of economy. Time and tide wait for no man. How to take advantage of opportunities earlier than rivals has become an urgent issue while the social anxiety is spreading. In respect of the macro environment, the economic development slowed down with a change in the model of growth. The traditional financial business faced a subversive impact that hundreds of new regulatory rules were enacted against irregularities in the financial industry to rectify the financial practices and prevent the trend of fraudulence. As to our industry, with the deepening reform on supply-side, the expectations for new economy and survival raised at the same time. Difficulty and high cost of financing for private enterprises and small and micro enterprises were emphasized much more than ever. For the finance sector, financial disintermediation and technological disintermediation created a pressure back on the faster transformation of financial institutions. All the operational model, business model and profitability model were urged for reshaping. The Matthew effect emerged clearly while the tide of merge already came. The focus of anxiety laid in the adaptability of financial reform and economic reform, and the key to the solution was to reshape the relationship between the two core parties, namely, banks and enterprises.

As a follower, witness and beneficiary in the financial reform, GRCB's every step of growth is closely related to the national economic development and social change. The reshaping of relationship between banks and enterprises is not only the contemporary new mission or the new topic for revolution, but also our definite option for successful transformation and the first step of becoming a mid-level bank. A change in mind should come first during the reshaping. The new relationship between banks and enterprises is no longer a single-service and single-direction financing chain which focused on larger enterprises and let smaller ones go, but an ecological circle where enterprises of all sizes are served well for mutual developments and mutual benefits. The change in model is the core part, in which the comprehensive linked service of "commercial bank + investment bank + trading bank + financial leasing + asset management platform" was connected with the "online and offline + local and non-local + domestic and overseas" multi-dimensional network. It provided enterprises within an ecosystem with the full-chain, full-cycle solution, and injected the endless vitality of financing, financial consulting, financing credibility and financial technology into the ecosystem. The change in system furnishes protection. The traditional three major sectors were divided into six professional small business groups while the KPI appraisal framework of focusing on results was replaced by a modern performance management system of caring about the process. By using financial technology to strengthen the risk control system and restoring order of operation, our purposes of focusing on targets accurately, striving with strong manpower and refining management will be truly achieved, and the value creation and value transmission of the bank-enterprise ecosystem will also be accelerated.

Successful enterprises move with the times, without exception. In sync with the rhythm of history, GRCB is then proud to become one of the top 200 banks in the world today through good preparation during its nine-year reform and innovation. In the running of times, the journey will go on when missions are not yet accomplished. The reshaping of the bank-enterprise ecology will be our serious commitment in the tenth year of restructuring, and it will also be our sincere gift to our motherland for the 70th anniversary! Blessing 2019! We pay tribute to the fellow of our reform!

Continuing Efforts for Dream

In 2018, our country strived hard and overcame numerous difficulties. In response to the critical and complicated situations, China kept its pace calm and stable with a good start in the three major battles. Along with the continuously increasing efforts at reform and opening up, its economy ran steadily in general. This year, Guangzhou Rural Commercial Bank firmly reinforced the Party's leadership and construction work. Steadfastly, the Bank put its focus back on operating its major business legally and adhered to high-quality development in line with the market logic, thereby accomplishing beyond our business objectives for the year. As at the end of the year, the total assets of the Group amounted to RMB763.29 billion. The balance of various deposits reached RMB542.34 billion, with various loan balances reaching RMB377.99 billion, the net profit for the year amounted to RMB6.83 billion. As at the end of the year, non-performing loan ratio was 1.27%, and provision coverage was 276.64%. All our regulatory indicators met regulatory requirements. The Bank was selected as one of the 1000 Largest Banks in the World published by the Banker of the UK for the nineth consecutive year, became the first regional bank in Guangdong province listed in Top 200 Banks in the World, and was in the list of Top 500 Enterprises in China for the third time.

We proactively implemented major political direction and arrangements for policies of the Party and the State, and made full support and service for real economy, private enterprises and strategic rural development work. Thirty-six measures for supporting the economic development of private enterprises were staged while ten opinions for facilitating the growth of small and micro-sized and inclusive businesses were published. In addition, a special action for easing the difficulties of private enterprises with a credit fund of RMB30 billion was taken. Our resources were used more for private enterprises as well as small and micro-sized and inclusive businesses in order to push the orientation of credit policy for supporting private enterprises and accelerate the upgrading of products and services for the economic support of private enterprises. The Bank launched both the financial platform of Winner e-station (贏家e站) to increase financing channels for private enterprises, and online products of Tax E-loan and Micro E-loan to promptly satisfy the needs for small amounts of loan for private enterprises. It also optimized the products of "Easy Renewing Loans" (易續貸), "Lian Lian Dai" (連連貸) and "Nian shen Dai" (年審貸) to reduce the cost on transfer of loans for private enterprises effectively.

We accelerated the integration between financial technology and banking business with the aim of constantly improving our core competitiveness and sustainability. We built "Internet+" agricultural chain financial services, activated planting craftsman cultivation plan, established online special zones for "famous, special, high-quality and innovative" agricultural products as well as integrated and upgraded the e-commerce platform of Sun Market. With the debut of village community fund management platform across the city, we promoted transparency of village community fund management. Through promoting the development of mobile banking, direct-selling banking, WeChat banking and new-type payment, businesses such as the bank card business, payment and settlement, deposits and loans, wealth management were integrated and developed rapidly.

We strengthened our risk management comprehensively in order to ensure safe and sound business development. With the implementation of absolute collection activity and the establishment of a competitive mechanism for non-performing asset collection, our collection target was achieved remarkably. We launched the risk prevention project focusing on system, human and technical defense, thereby reinforcing our business process management and human behaviour control. By firmly promoting risk prevention activities and discovering major risks and prominent issues faced by the credit granting business, we addressed the problems with the right measures and complemented our shortcomings. With a series of activities organized for the Year of Compliance Culture, we conducted comprehensive self-inspection on the risk management system and mechanism in an effort to safeguard the compliance bottom line.

We continued to optimize and carry out reform on our internal management with a view to fully motivating our vigor in operations. We reconstructed our marketing management system with the principle of "intensive back office + focus on the front office" and carried out reform on the management system of marketing organizations based on "business working groups establishment + outlets neutralization", thereby discovering new business growth points through self-reform. By constructing the tool system of "three boundaries and two illustrations" (三邊兩表), our performance management capability was improved and the operational targets and actual completion of various organizations as well as the devotion and actual use of human, financial and material resources were shown clearly.

Year 2019 marks the 70th anniversary of the founding of new China and is critical to the comprehensive development into a well-off society. It is also the 10th anniversary of the Bank's reform and the year for transformation and realizing our dreams. The basic concept for the whole year's operation and management work is: by following Xin Jinping's thoughts on socialism with Chinese characteristics for a new era, we will continue to fully implement the major policies and decisions of the Party and the State, seriously carry out the strategies and work requirements of the Bank's Party committee, the Board and general meetings, such that we can steadfastly follow our path to sound operation, transformation and innovation, and place more emphasis on comprehensive risk management in a bid to carry out risk prevention measures resolutely and strive to achieve safe operation and high quality development. The overall requirements for the whole year's operation and management work are: to fully recognise the huge changes of the external operating environment in order to accurately get hold of its two sides; to fully understand and implement the Party's and the State's direction and policies to which the Bank's operation and management work must adhere as the basic direction and principle; to place more emphasis on comprehensive risk management by carrying out risk prevention measures properly; to strive to achieve high quality development on the basis of safe and stable operation. The priorities of the year are: firstly, to implement comprehensive risk management requirements by organizing "construction of four systems, one project and two actions", so as to safeguard the Bank's safe and sound operation and high quality development; secondly, to use best endeavours to develop the liability business; thirdly, to optimize and improve the allocation of financial, human and credit resources in an effort to further strengthen and enhance the scientificity and reasonableness of resources allocation, such that the market logic of survival of the fittest, performance-linked remuneration, flow of resources to businesses with high return is more clearly propagated; fourthly, to organize and implement the reform of new marketing organization system properly, so as to constantly improve the implementation effect of the "airport + airlines" marketing organization management system; fifthly, to accelerate digital transformation by adhering to the structure-focused principle, with the view to reinforcing the support on operation and management and business transformation by information technology; sixthly, to fully regulate and enhance management on non-local organizations; seventhly, to promote work style, culture building and work related to administration and operation with the aim of providing strong support and protection to the Bank's operation and management work.

We strongly understand that Guangzhou Rural Commercial Bank will encounter serious difficulties and challenges in the coming year and beyond. However, based on our ample experience, we will strive to continue to fight and move forward with our dreams with no fears of the past nor future. We also firmly believe that we can overcome any difficulties and look forward to achieving our dreams!

ENVIRONMENT AND OUTLOOK

In 2018, as influenced by the increased factors of instability, the recovery of global economy showed a downward trend from its peak. Differentiation and fluctuation remained the apparent features for the growth of major economies. Though there was a great momentum in the growth of the U.S. economy, the enlarged divergence between its monetary policy and fiscal policy gradually deepened the economic uncertainty. In contrast, the growth of the European economy slowed down while the Brexit deadlock together with the increasing political risk of certain countries within Europe further weakened its steady revival. Japan saw higher fluctuation in its economy. As for the emerging economies, intensified differentiation, structural imbalance, weak financial systems and huge debt were still the sources of their major risks.

In 2018, in the face of many adverse effects such as geopolitical risk, trade protectionism, global market fluctuation and tightening financial environment, China's economy demonstrated its incredible fortitude and vigour in aspects such as deepening the reform on supply side, optimizing structural adjustment and remarkable achievement in new growth driver development, with an annual economic growth of 6.60%. The framework of high quality development was gradually coming to its shape. Working alongside the maintenance of the aforesaid sound and promising situation, it needed to pay much attention to the precaution and resolution of long-term structural imbalance and cumulative risk as the downward pressure on the economy should not be overlooked.

During the year of 2018, Guangdong province had deeply adapted to and led the new normal of economic development, adhered to the foundation of steady work progression, and accelerated the strategic adjustment to the economic structure steadfastly. The gross regional domestic production (GRDP) of the province amounted to RMB9.73 trillion, an increase of 6.80% over the previous year, accounting for 10.81% of the country's total and ranking first in the country for 30 consecutive years. The annual GRDP of Guangzhou in 2018 was RMB2.29 trillion, representing an increase of 6.20% over the previous year. Looking ahead to 2019, continued uncertainty of the global economic recovery is probable, difficulty of coordination between the financial policy and trade policy of major economies will increase, and that the differentiation pattern will remain. The Chinese economy will continuously enter a stage of high quality development and is expected to maintain stable growth against the backdrop of the deepening reform on supply side.

In 2018, the Bank's overall operations and scale of assets grew steadily with upsurging profitability and improving asset quality, conducing to a balanced development of scale, benefits and quality. In 2019, the Bank will continue to adhere to its market logic and existing strategic positioning and direction, and by capitalizing the ongoing optimization of the relationship with enterprises, the Bank will make stable progress on reform and business transformation. The Bank will also be proactive in risk prevention, improvement in growth and efficiency, strictly implement the strategic positioning and direction established by the Board and make persistent efforts on both servicing for real economy and compliance management, enhancement of connotation level of management service, proactive reinforcement for stable, innovative and efficient operation. Further, with the objective of high-quality growth, the Bank will expedite the listing of its A shares and continue to create a new phase of sustainable development.

FINANCIAL REVIEW

I. INCOME STATEMENT ANALYSIS

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2018	2017	Change in amount	Rate of Change (%)
Interest income	29,445.58	29,186.45	259.13	0.89
Interest expense	(16,173.93)	(17,491.92)	1,317.99	(7.53)
Net interest income	**13,271.65**	**11,694.53**	**1,577.12**	**13.49**
Fee and commission income	1,813.22	2,568.56	(755.34)	(29.41)
Fee and commission expense	(265.70)	(277.17)	11.47	(4.14)
Net fee and commission income	**1,547.52**	**2,291.39**	**(743.87)**	**(32.46)**
Net trading gains	4,537.20	1,299.40	3,237.80	249.18
Net gains or losses on financial investments	648.94	(1,639.02)	2,287.96	139.59
Other operating income, net	661.36	(167.64)	829.00	494.51
Operating income	**20,666.67**	**13,478.66**	**7,188.01**	**53.33**
Operating expenses	(5,984.34)	(5,164.19)	(820.15)	15.88
Credit impairment losses	(5,829.92)	N/A	N/A	N/A
Impairment losses on other assets	(139.02)	N/A	N/A	N/A
Impairment losses on assets	N/A	(787.85)	N/A	N/A
Profit before income tax	**8,713.39**	**7,526.62**	**1,186.77**	**15.77**
Income tax expense	(1,881.23)	(1,635.63)	(245.60)	15.02
Net profit	**6,832.16**	**5,890.99**	**941.17**	**15.98**

In 2018, the Group recorded a profit before income tax of RMB8,713 million, representing a year-on-year increase of 15.77%, and a net profit of RMB6,832 million, representing a year-on-year increase of 15.98%. Profit before income tax and net profit achieved steady growth, primarily due to the adjustment to the structure of interest-earning assets and the decrease in the daily average size of interest-bearing liabilities, coupled with the decrease in payout ratio, net interest income increased as a result. Secondly, the growth was benefitted from the significant increase in net trading gains and net gains or losses on financial investments.

(I) Net Interest Income

In 2018, the net interest income of the Group amounted to RMB13,272 million, representing a year-on-year increase of RMB1,577 million, or 13.49%, and accounting for 64.22% of our total operating income. It was primarily due to, firstly, our adjustment to the structure of interest-earning assets, which led to both a rise in the price and amount of loan business that drove up the interest income on a year-on-year basis; and secondly, a decrease in the daily average sizes of interest-bearing liabilities and payout ratio, resulting in a decrease in interest expense year-on-year.

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

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2018	For the year ended 31 December 2017	Change in amount	Rate of Change (%)
Interest income	29,445.58	29,186.45	259.13	0.89
Interest expense	(16,173.93)	(17,491.92)	1,317.99	(7.53)
Net interest income	**13,271.65**	**11,694.53**	**1,577.12**	**13.49**

(Expressed in RMB million, unless otherwise stated)	For the twelve months ended 31 December 2018			For the twelve months ended 31 December 2017		
	Average balance	Interest income/ expense	Average yield/cost rate (%)	Average balance	Interest income/ expense	Average yield/cost rate (%)
Loans and advances to customers	334,438.57	19,605.08	5.86	275,901.53	14,955.91	5.42
Financial investments	144,636.55	6,187.43	4.28	257,936.65	10,319.37	4.00
Deposits and placements with banks and other financial institutions	26,953.25	963.28	3.57	28,287.24	828.68	2.92
Financial assets held under resale agreements	48,260.40	1,606.55	3.33	54,718.17	2,000.64	3.66
Deposits with central bank	71,429.65	1,083.24	1.52	71,504.51	1,081.85	1.51
Total interest-earning assets	**625,718.42**	**29,445.58**	**4.71**	**688,348.10**	**29,186.45**	**4.24**
Due to customers	497,196.73	9,159.62	1.84	449,125.56	8,611.98	1.92
Placements and deposits from banks and other financial institutions	63,764.34	2,618.31	4.11	77,557.70	2,810.24	3.62
Financial assets sold under repurchase agreements	16,725.29	449.33	2.69	24,417.26	669.88	2.74
Debt securities issued	84,901.15	3,895.24	4.59	124,470.32	5,378.13	4.32
Borrowing from central bank	1,855.97	51.43	2.77	794.68	21.69	2.73
Total interest-bearing liabilities	**664,443.47**	**16,173.93**	**2.43**	**676,365.52**	**17,491.92**	**2.59**
Net interest income		**13,271.65**			**11,694.53**	
Net interest spread			2.28			**1.65**
Net interest margin			2.12			**1.70**

In 2018, compared with the corresponding period of last year, the overall average yield of interest-earning assets increased by 47 basis points to 4.71%, the overall average cost rate of interest-bearing liabilities decreased by 16 basis points to 2.43%, net interest spread increased by 63 basis points to 2.28%, and net interest margin increased by 42 basis points to 2.12%.

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

(Expressed in RMB million, unless otherwise stated)	Increase/(decrease) due to changes in the following item		Net increase/ decrease
	Volume factor	Rate factor	
Assets			
Loans and advances to customers	3,173.00	1,476.00	4,649.00
Financial investments	(4,533.00)	401.00	(4,132.00)
Deposits and placements with banks and other financial institutions	(39.00)	174.00	135.00
Financial assets held under resale agreements	(236.00)	(158.00)	(394.00)
Deposits with central bank	(1.00)	3.00	2.00
Changes in interest income	(1,636.00)	1,896.00	260.00
Liabilities			
Due to customers	922.00	(374.00)	548.00
Placements and deposits from banks and other financial institutions	(500.00)	308.00	(192.00)
Financial assets sold under repurchase agreements	(211.00)	(10.00)	(221.00)
Debt securities issued	(1,710.00)	227.00	(1,483.00)
Borrowing from central bank	29.00	1.00	30.00
Changes in interest expense	(1,470.00)	152.00	(1,318.00)

1. *Interest income*

In 2018, interest income of the Group amounted to RMB29,446 million, representing an increase of RMB259 million or 0.89% as compared to the corresponding period of last year.

(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:

	For the twelve months ended 31 December 2018			For the twelve months ended 31 December 2017		
(Expressed in RMB million, unless otherwise stated)	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Corporate loans	226,157.13	13,910.14	6.15	177,299.35	9,842.11	5.55
Personal loans	101,305.95	5,338.42	5.27	87,773.68	4,675.94	5.33
Discounted bills	6,975.49	356.52	5.11	10,828.50	437.86	4.04
Total loans to customers	**334,438.57**	**19,605.08**	**5.86**	**275,901.53**	**14,955.91**	**5.42**

Interest income from loans and advances to customers amounted to RMB19,605 million, representing a year-on-year increase of RMB4,649 million, or 31.08%, and the average yield increased by 44 basis points to 5.86% as compared with last year, mainly due to a rise in the price and amount of the loan business drove up the yield on a year-on-year basis.

(2) INTEREST INCOME FROM AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

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

	For the twelve months ended 31 December 2018			For the twelve months ended 31 December 2017		
(Expressed in RMB million, unless otherwise stated)	Average balance	Interest income	Average yield (%)	Average balance	Interest income	Average yield (%)
Deposits and placements with banks and other financial institutions	26,953.25	963.28	3.57	28,287.24	828.68	2.92
Financial assets held under resale agreements	48,260.40	1,606.55	3.33	54,718.17	2,000.64	3.66
Total amounts due from banks and other financial institutions	**75,213.65**	**2,569.83**	**3.42**	**83,005.41**	**2,829.32**	**3.40**

In 2018, the interest expense from amounts due from banks and other financial institutions of the Group amounted to RMB2,570 million, representing a year-on-year decrease of RMB259 million, or 9.16%, which was primarily due to our adjustment to the structure of interest-earning assets, resulting in a slight decrease in the yield of amounts due from banks and other financial institutions.

2. *Interest expense*

In 2018, the Group's interest expense decreased by RMB1,318 million, or 7.53%, to RMB16,174 million as compared to the corresponding period of last year.

(1) INTEREST EXPENSE ON AMOUNTS DUE TO CUSTOMERS

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

(Expressed in RMB million, unless otherwise stated)	For the twelve months ended 31 December 2018			For the twelve months ended 31 December 2017		
	Average balance	Interest expense	Average cost rate (%)	Average balance	Interest expense	Average cost rate (%)
Corporate deposits						
Demand	98,992.20	452.89	0.46	93,189.88	475.59	0.51
Time	120,703.84	3,642.27	3.02	87,796.78	3,005.16	3.42
Subtotal	**219,696.04**	**4,095.16**	**1.86**	**180,986.66**	**3,480.75**	**1.92**
Personal deposits						
Demand	93,183.77	292.18	0.31	85,108.95	269.71	0.32
Time	127,603.34	2,974.80	2.33	120,814.71	3,086.21	2.55
Subtotal	**220,787.11**	**3,266.98**	**1.48**	**205,923.66**	**3,355.92**	**1.63**
Other deposits	**56,713.59**	**1,797.48**	**3.17**	**62,215.23**	**1,775.31**	**2.85**
Total amounts due to customers	**497,196.74**	**9,159.62**	**1.84**	**449,125.56**	**8,611.98**	**1.92**

In 2018, the Group's interest expense on amounts due to customers amounted to RMB9,160 million, representing a year-on-year increase of RMB548 million, or 6.36%, and the cost rate of deposits was 1.84%, representing a decrease of 8 basis points year-on-year, showing cost rate of deposits remained stable.

(2) INTEREST EXPENSE ON AMOUNTS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

(Expressed in RMB million, unless otherwise stated)	For the twelve months ended 31 December 2018			For the twelve months ended 31 December 2017		
	Average balance	Interest expense	Average cost rate (%)	Average balance	Interest expense	Average cost rate (%)
Placements and deposits from banks and other financial institutions	63,764.34	2,618.31	4.11	77,557.70	2,810.24	3.62
Financial assets sold under repurchase agreements	16,725.29	449.33	2.69	24,417.26	669.88	2.74
Total amounts due to banks and other financial institutions	**80,489.63**	**3,067.64**	**3.81**	**101,974.96**	**3,480.12**	**3.41**

In 2018, the Group's interest expense on amounts due to banks and other financial institutions amounted to RMB3,068 million, representing a year-on-year decrease of RMB412 million, or 11.84%, which was primarily due to the Bank's proactive adjustment to the structure of interest-bearing liabilities and, as a result, a decrease on the average daily sizes of deposits from banks and financial assets sold under repurchase agreements.

(II) Non-interest Income

1. Net fee and commission income

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2018	For the year ended 31 December 2017	Change in amount	Rate of Change (%)
Fee income from advisory and consulting business	360.73	823.18	(462.45)	(56.18)
Fee income from settlement and electronic channel business	145.63	126.34	19.29	15.27
Fee income from agency and custodian business	284.11	393.99	(109.88)	(27.89)
Fee income from wealth management products	82.75	188.91	(106.16)	(56.20)
Fee income from bank card business	609.86	620.54	(10.68)	(1.72)
Financial leasing fee income	82.71	142.18	(59.47)	(41.83)
Fee income from foreign exchange business	79.66	86.02	(6.36)	(7.39)
Others	167.77	187.40	(19.63)	(10.47)
Subtotal	**1,813.22**	**2568.56**	**(755.34)**	**(29.41)**
Fee and commission expense:				
Fee expense on settlement and electronic channel business	(20.52)	(29.57)	9.05	(30.61)
Fee expense on bank card business	(57.38)	(66.63)	9.25	(13.88)
Others	(187.80)	(180.97)	(6.83)	3.77
Subtotal	**(265.70)**	**(277.17)**	**11.47**	**(4.14)**
Net fee and commission income	**1,547.52**	**2291.39**	**(743.87)**	**(32.46)**

In 2018, the net fee and commission income of the Group amounted to RMB1,548 million, representing a year-on-year decrease of RMB744 million, or 32.46%, and accounting for 7.49% of our total operating income, which was mainly due to a decrease in fee income from advisory and consulting business, fee income from agency and custodian business and fee income from wealth management products.

2. Net trading gains

In 2018, the net trading gains of the Group amounted to RMB4,537 million, representing a year-on-year increase of RMB3,237 million, mainly due to a significant increase in net trading gains for the current period as a result of the sharp increase in gains from financial instruments for the current period classified as financial assets at fair value through profit or loss based on the requirements of the new accounting standards on financial instruments.

3. Net gain or losses on financial investments

In 2018, the net gains on financial investments of the Group amounted to RMB649 million, primarily due to the favourable environment of the bond market.

4. Other operating income, net

In 2018, the net other operating income of the Group amounted to RMB661 million, mainly due to foreign exchange gains, gains on sale of repossessed assets and penalties and compensation.

(III) *Operating Expenses*

In 2018, the operating expenses of the Group increased by RMB820 million, or 15.88%, to RMB5,984 million as compared to the corresponding period of last year.

The following table sets forth the principal components of operating expenses of the Group for the periods indicated:

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2018	For the year ended 31 December 2017	Change in amount	Rate of Change (%)
Staff costs	3,687.56	3,029.86	657.70	21.71%
Tax and surcharges	187.48	162.77	24.71	15.18%
Depreciation and amortization	563.69	513.97	49.72	9.67%
Others	1,545.61	1,457.59	88.02	6.04%
Total operating expenses	**5,984.34**	**5,164.19**	**820.15**	**15.88%**

1. *Staff costs*

Staff costs represent the largest component of operating expenses of the Group, accounting for 61.62% and 58.67% of our operating expenses for 2018 and 2017, respectively.

The following table sets forth the principal components of staff costs of the Group for the periods indicated:

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2018	For the year ended 31 December 2017	Change in amount	Rate of Change (%)
Salaries, bonuses, allowances and subsidies	2,660.68	2,039.83	620.85	30.44%
Social insurance and employee benefits	845.96	842.48	3.48	0.41%
Others	180.92	147.56	33.36	22.61%
Total staff costs	**3,687.56**	**3,029.87**	**657.69**	**21.71%**

In 2018, staff costs of the Group amounted to RMB3,688 million, representing a year-on-year increase of RMB658 million, or 21.71%, which was primarily attributable to an increase in salaries, bonuses and allowances.

2. *Tax and surcharges*

In 2018, the tax and surcharges incurred amounted to RMB187 million, representing a year-on-year increase of RMB25 million, or 15.18%.

3. *Depreciation and amortization*

In 2018, depreciation and amortization of the Group was RMB564 million, representing a year-on-year increase of RMB50 million, or 9.67%.

4. *Others*

In 2018, other expenses amounted to RMB1,546 million, representing a year-on-year increase of RMB88 million, or 6.04%.

(IV) Impairment Losses on Assets

The following table sets forth the principal components of impairment losses on assets of the Group for the periods indicated:

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2018	2017	Change in amount	Rate of Change (%)
Credit impairment losses	5,829.92	N/A	N/A	N/A
Impairment losses on assets	N/A	631.10	N/A	N/A
Other assets	139.02	156.75	(17.73)	(11.31)
Total	**5,968.94**	**787.85**	**5,181.09**	**657.62%**

In 2018, the provisions for impairment losses on assets made by the Group amounted to RMB5,969 million. Among which, provision for credit impairment losses amounted to RMB5,830 million.

(V) Income Tax Expense

In the full year of 2018, income tax expense amounted to RMB1,881 million, representing a year-on-year increase of RMB246 million, mainly due to a significant increase in total profit as compared to the corresponding period of last year. The effective income tax rate was 21.59%.

II. ANALYSIS ON STATEMENT OF FINANCIAL POSITION

(I) Assets

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

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018 Amount	As at 31 December 2018 Percentage of total (%)	As at 31 December 2017 Amount	As at 31 December 2017 Percentage of total (%)
Total loans and advances to customers	377,988.91	49.52	294,013.27	39.96
Allowances for impairment losses	(13,020.94)	(1.71)	(8,311.57)	(1.13)
Loans and advances to customers, net	364,967.97	47.82	285,701.70	38.83
Net financial investments[1]	138,055.98	18.09	219,698.88	29.86
Cash and deposits with the central bank	101,589.71	13.31	103,767.44	14.10
Financial assets at fair value through profit or loss	89,797.16	11.76	15,270.18	2.08
Deposits with banks and other financial institutions	10,866.56	1.42	14,443.63	1.96
Placements with banks and other financial institutions	15,299.11	2.00	6,606.54	0.90
Financial assets held under resale agreements	29,338.95	3.84	76,393.40	10.38
Others[2]	13,374.16	1.75	13,831.89	1.89
Total assets	**763,289.60**	**100.00**	**735,713.66**	**100.00**

Notes:

(1) In 2018, financial investments included financial assets at fair value through other comprehensive income and financial assets measured at amortized cost; in 2017, financial investments included available-for-sale financial assets, held-to-maturity investments and debt securities classified as receivables.

(2) Other assets consist of interest receivables, property and equipment, deferred income tax assets, debt assets and accounts receivable and accounts payable.

As at 31 December 2018, the Group's total assets amounted to RMB763,290 million, representing an increase of RMB27,576 million, or 3.75%, as compared to the end of last year. Among which, the total loans and advances to customers increased by RMB83,976 million, or 28.56%, as compared to the end of last year. This was primarily due to the fact that the macro environment stabilized in 2018, and the real economy showed a stronger credit demand, which led to a rapid growth in the scale of loans.

Financial investments decreased by RMB81,643 million, or 37.16%, as compared to the end of last year, primarily due to, firstly the Bank shrank the scale of securities investment business under the impacts of external regulatory environment and, for the second half of the year, the situation of quality asset shortage, and secondly as influenced by IFRS 9, the previous investments classified as receivables were reclassified to financial assets at fair value through profit or loss and no longer recorded as financial investments.

1. *Loans and advances to customers*

DISTRIBUTION OF LOANS BY BUSINESS SEGMENT

(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	266,039.08	70.38	192,541.48	65.49
Personal loans	108,354.08	28.67	96,252.40	32.74
Discounted bills	3,595.75	0.95	5,219.39	1.77
Total loans to customers	**377,988.91**	**100.00**	**294,013.27**	**100.00**

As at 31 December 2018, our total loans and advances to customers of the Group increased by RMB83,976 million, or 28.56%, to RMB377,989 million as compared to the end of last year.

As compared to the end of last year, the Group's total corporate loans increased by RMB73,498 million, or 38.17%, to RMB266,039 million; total personal loans increased by RMB12,102 million, or 12.57%, to RMB108,354 million; and total discounted bills decreased by RMB1,623 million, or 31.10%, to RMB3,596 million. The increase in loans of the Group was mainly due to an increase in the demand for loans to customers as the macro environment stabilized in 2018.

DISTRIBUTION OF LOANS BY PRODUCT TYPE

(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 (%)
Total corporate loans	**266,039.08**	**70.38**	**192,541.48**	**65.49**
Working capital loans	132,322.51	35.01	95,708.77	32.56
Fixed asset loans	121,125.14	32.04	84,329.87	28.68
Lease receivables	12,408.70	3.28	12,301.68	4.18
Others	182.73	0.05	201.16	0.07
Total personal loans	**108,354.08**	**28.67**	**96,252.40**	**32.74**
Personal mortgage loans	54,297.18	14.36	46,828.07	15.93
Personal business loans	31,890.38	8.44	26,356.02	8.96
Personal consumption loans	13,294.06	3.52	15,043.50	5.12
Balance of credit cards	8,872.46	2.35	8,024.81	2.73
Total discounted bills	**3,595.75**	**0.95**	**5,219.39**	**1.77**
Bank acceptance bills	599.71	0.16	219.15	0.07
Commercial acceptance bills	2,996.04	0.79	5,000.24	1.70
Total loans to customers	**377,988.91**	**100.00**	**294,013.27**	**100.00**

As at 31 December 2018, the Group's working capital loans, fixed asset loans and lease receivables were RMB132,323 million, RMB121,125 million and RMB12,409 million, respectively, representing 49.74%, 45.53% and 4.66% of our total corporate loans, respectively. Among which, working capital loans and fixed asset loans increased by RMB36,614 million and RMB36,795 million, or 38.26% and 43.63%, as compared to the end of last year, respectively, mainly due to an increase in the demand for loans to customers as the macro economy stabilized in 2018.

As at 31 December 2018, the Group's personal mortgage loans, personal business loans, personal consumption loans and balance of credit cards were RMB54,297 million, RMB31,890 million, RMB13,294 million and RMB8,873 million, respectively, representing 50.11%, 29.43%, 12.27% and 8.19% of our total personal loans, respectively. Among which, personal mortgage loans, personal business loans and balance of credit cards increased by RMB7,469 million, RMB5,534 million and RMB848 million, or 15.95%, 21.00% and 10.56%, as compared to the end of last year, respectively, while personal consumption loans decreased by RMB1,749 million, or 11.63%, as compared to the end of last year. The increase in personal mortgage loans was mainly due to an increase in market demand.

As at 31 December 2018, the discounted bank acceptance bills and discounted commercial acceptance bills of the Group were RMB600 million and RMB2,996 million, respectively. Among which, discounted bank acceptance bills decreased by RMB2,004 million, or 40.08%, as compared to the end of last year, mainly due to the fact that the Bank actively reduced the scale of discounted bank acceptance bills with low returns and increased the scale of corporate and personal loans to stabilize the overall returns on loans.

DISTRIBUTION OF LOANS 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 (%)
Collateralized loans	226,734.97	59.98	179,578.26	61.07
Pledged loans	32,867.87	8.70	23,102.30	7.86
Guaranteed loans	89,552.57	23.69	65,060.99	22.13
Credit loans	28,833.50	7.63	26,271.72	8.94
Total loans to customers	**377,988.91**	**100.00**	**294,013.27**	**100.00**

As at 31 December 2018, the collateralized loans, pledged loans, guaranteed loans and credit loans of the Group increased by RMB47,157 million, RMB9,765 million, RMB24,492 million and RMB2,562 million, or 26.26%, 42.27%, 37.64% and 9.75%, as compared to the end of last year, respectively. The proportion of collateralized and pledged loans to total loans remained high at 68.68%, reflecting the prudent risk management policy of the Bank.

2. *Investments*

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

(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 at fair value through profit or loss	89,797.16	39.41	15,270.18	6.50
Financial assets at fair value through other comprehensive income	57,697.75	25.32	–	–
Financial assets measured at amortized cost	80,358.23	35.27	–	–
Available-for-sale financial assets	–	–	68,876.56	29.30
Held-to-maturity investments	–	–	59,902.99	25.49
Debt securities classified as receivables	–	–	90,919.33	38.69
Total investments	**227,853.14**	**100.00**	**234,969.06**	**100.00**

As at 31 December 2018, total investments of the Group decreased by RMB7,116 million, or 3.03%, to RMB227,853 million as compared to the end of last year.

(II) Liabilities

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

(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 (%)
Due to customers	542,335.16	76.63	488,671.86	71.11
Deposits from banks and other financial institutions	63,215.97	8.93	43,470.17	6.33
Placements from banks and other financial institutions	1,553.58	0.22	3,572.43	0.52
Repurchase agreements	11,817.78	1.67	23,829.47	3.47
Debt securities issued	65,875.44	9.31	101,383.78	14.75
Others[1]	22,910.61	3.24	26,308.24	3.83
Total liabilities	**707,708.53**	**100.00**	**687,235.94**	**100.00**

Note:

(1) Mainly include tax payable, borrowings from central bank and accrued staff costs.

As at 31 December 2018, total liabilities of the Group increased by RMB20,473 million, or 2.98%, to RMB707,709 million as compared to the end of last year. The amount due to customers stably increased by RMB53,663 million, or 10.98%, as compared to the end of last year, in which its proportion in the liabilities of the Group increased by 5.52 percentage points.

1. *Due to customers*

The following table sets forth the amount due to customers of the Bank by product type as at the dates indicated:

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018 Amount	Percentage of total (%)	As at 31 December 2017 Amount	Percentage of total (%)
Corporate deposits[1]				
Time	127,713.26	23.55	100,321.44	20.53
Demand	124,035.10	22.87	119,803.15	24.52
Subtotal	251,748.36	46.42	220,124.59	45.05
Personal deposits				
Time	140,860.91	25.97	119,845.95	24.52
Demand	99,200.46	18.29	92,918.34	19.01
Subtotal	240,061.37	44.26	212,764.29	43.54
Pledged deposits	13,216.85	2.44	11,443.91	2.34
Other deposits[2]	37,308.58	6.88	44,339.07	9.07
Due to customers	**542,335.16**	**100.00**	**488,671.86**	**100.00**

Notes:

(1) Mainly include deposits from corporate customers and government bodies.

(2) Mainly include structured deposits, treasury time deposits and fiscal deposits raised from the launch of principal-preservation wealth management products by the Bank.

As at 31 December 2018, the amount due to customers increased by RMB53,663 million, or 10.98%, to RMB542,335 million as compared to the end of last year. With respect to the customer structure of the Group, personal deposits accounted for 44.26% of our total amount due to customers, and the balance of personal deposits increased by RMB27,297 million, or 12.83%, as compared to the end of last year; corporate deposits (excluding pledged deposits) accounted for 46.42% of our total amount due to customers, and the balance of corporate deposits increased by RMB31,624 million, or 14.37%, as compared to the end of last year. With respect to the maturity structure, the balance of demand deposits accounted for 41.16% of our total amount due to customers, representing a decrease of 2.37 percentage points over the end of last year, while time deposits accounted for 49.52%, representing an increase of 4.47 percentage points over the end of last year.

(III) Composition of Shareholders' Equity

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

(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	9,808.27	17.65	9,808.27	20.23
Capital reserve	10,861.00	19.54	10,581.74	21.83
Surplus reserve	4,398.57	7.91	3,777.43	7.79
General risk reserve	9,448.55	17.00	8,718.22	17.98
Investment revaluation reserve	1,082.03	1.95	(2,023.72)	(4.17)
Remeasurement gains on defined benefit plans	(14.88)	(0.03)	68.17	0.14
Retained earnings	17,277.79	31.09	15,114.41	31.18
Non-controlling interests	2,719.74	4.89	2,433.20	5.02
Total shareholders' equity	**55,581.07**	**100.00**	**48,477.72**	**100.00**

As at 31 December 2018, the Group recorded a paid-in capital of RMB9,808 million, capital reserve of RMB10,861 million and retained earnings of RMB17,278 million. Please refer to the notes to financial statements for further details.

III. LOAN QUALITY ANALYSIS

(I) Five-Category Classification of Loans

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

(Expressed in RMB million, unless otherwise stated) Item	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Normal	363,429.72	96.15	282,466.61	96.07
Special mention	9,754.11	2.58	7,096.03	2.41
Substandard	1,906.80	0.50	1,019.55	0.35
Doubtful	2,343.21	0.62	2,555.04	0.87
Loss	555.07	0.15	876.04	0.30
Total loans to customers	**377,988.91**	**100.00**	**294,013.27**	**100.00**
Non-performing loan ratio(1)	–	**1.27**	–	**1.51**

Note:

(1) Calculated by dividing the total amount of non-performing loans (loans classified into substandard, doubtful or loss categories) by total loans.

In 2018, faced with increasingly complicated economic and financial circumstances at home and abroad, the Group strengthened asset quality control, increased the efforts made in relation to risk investigation on credit assets, strengthened risk-alert, tracking and post-loan management, took proactive actions to address and resolve risks in advance. Through carrying out the "absolute collection" activity on non-performing loans, the Group made greater efforts to collect, dispose and eliminate non-performing loans, vigorously reducing the scale of non-performing loans. Therefore, the quality of the Bank's assets was stable with risks under control generally. As at 31 December 2018, the non-performing loan ratio was 1.27% which decreased by 0.24 percentage point from the end of last year.

(II) *Distribution of Non-performing Corporate Loans by Industry*

The following table sets forth the distribution of the Group's non-performing corporate loans by industry as at the dates indicated:

(Expressed in RMB million, unless otherwise stated) Item	As at 31 December 2018 Amount	Percentage of total (%)	Non-performing loan ratio[1] (%)	As at 31 December 2017 Amount	Percentage of total (%)	Non-performing loan ratio[1] (%)
Wholesale and retail	391.61	13.02	0.87	995.95	38.15	3.39
Real estate	196.87	6.55	0.35	6.63	0.25	0.01
Leasing and commercial services	963.23	32.04	1.97	330.05	12.64	1.10
Manufacturing	249.44	8.30	0.84	170.48	6.53	0.78
Construction	74.28	2.47	0.42	72.26	2.77	0.71
Water conservation, environment and public utilities management	6.99	0.23	0.14	–	–	–
Accommodation and catering	143.76	4.78	1.38	20.83	0.80	0.27
Transportation, storage and postal services	101.53	3.38	0.77	117.10	4.49	1.23
Agriculture, forestry, animal husbandry and fishery	102.15	3.40	1.17	131.23	5.03	2.52
Information transmission, software and information technology services	13.97	0.46	0.28	11.49	0.44	0.37
Education	1.42	0.05	0.03	–	–	–
Health and social services	–	0.00	0.00	–	–	–
Household, repair and other services	7.53	0.25	0.17	4.52	0.17	0.20
Production and supply of electricity, heat, gas and water	–	0.00	0.00	–	–	–
Others	753.90	25.07	6.76	749.77	28.73	11.21
Total non-performing corporate loans	**3,006.68**	**100.00**	**1.13**	**2,610.31**	**100.00**	**1.36**

Note:

(1) Calculated by dividing non-performing loans (loans classified into substandard, doubtful or loss categories) of each industry by gross loans granted to such industry.

In 2018, faced with the complicated and ever-changing external economic conditions, the Group continued to optimize its industry-specific lending and entry criteria for customers. As such, the total non-performing corporate loans and the non-performing ratios were generally stable.

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

The following table sets forth the distribution of the Group's non-performing loans by product type as at the dates indicated:

(Expressed in RMB million, unless otherwise stated) Item	As at 31 December 2018 Amount	Percentage of total (%)	Non-performing loan ratio[1] (%)	As at 31 December 2017 Amount	Percentage of total (%)	Non-performing loan ratio[1] (%)
Corporate loans	**3,006.68**	**100.00**	**1.13**	**2,610.00**	**100.00**	**1.36**
Personal loans	**1,434.85**	**100.00**	**1.32**	**1,840.34**	**100.00**	**1.91**
Personal mortgage loans	132.58	9.24	0.24	124.03	6.74	0.26
Personal business loans	921.91	64.25	2.89	1,251.58	68.01	4.75
Personal consumption loans	127.50	8.89	0.96	135.07	7.34	0.90
Balance of credit cards	252.86	17.62	2.85	329.66	17.91	4.11
Discounted bills	**363.55**	**100.00**	**10.11**	–	–	–
Total non-performing loans	**4,805.08**	–	**1.27**	**4,451.34**	–	**1.51**

Note:

(1) Calculated by dividing non-performing loans (loans classified into substandard, doubtful or loss categories) in each product type by gross loans in that product type.

As at 31 December 2018, non-performing ratio of corporate loans decreased by 0.23 percentage point to 1.13% as compared to the end of last year, whereas the non-performing ratio of personal loans decreased by 0.59 percentage point to 1.32% as compared to the end of last year.

(IV) Overdue Loans to Customers

The following table sets forth the aging timetable of the Group's loans by loan certificate as at the dates indicated:

(Expressed in RMB million, unless otherwise stated) Item	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Loans that were not past due	**369,537.80**	**97.76**	**288,048.28**	**97.97**
Loans that were past due	**8,451.11**	**2.24**	**5,964.99**	**2.03**
Past due up to 90 days (including 90 days)	3,987.43	1.05	1,800.55	0.61
Past due 90 days to 1 year (including 1 year)	2,464.21	0.65	783.23	0.27
Past due 1 year to 3 years (including 3 years)	934.77	0.25	2,424.32	0.82
Past due over 3 years	1,064.70	0.28	956.89	0.33
Total loans	**377,988.91**	**100.00**	**294,013.27**	**100.00**
Loans that were past due for more than three months	**4,463.68**	**1.18**	**4,164.44**	**1.42**

As at 31 December 2018, overdue loans amounted to 8.451 billion, representing an increase of 2.486 billion from the end of last year and accounting for 2.24% of the total loans, representing an increase of 0.21% from the end of last year.

(V) Rescheduled Loans and Advances

(Expressed in RMB million, unless otherwise stated) Item	As at 31 December 2018		As at 31 December 2017	
	Amount	Percentage of total (%)	Amount	Percentage of total (%)
Rescheduled loans and advances	4,675.67	1.24	3,995.28	1.36

As at 31 December 2018, rescheduled loans and advances amounted to RMB4,676 million, representing an increase of RMB681 million as compared to the end of last year.

IV. ANALYSIS OF CAPITAL ADEQUACY RATIO

The Group adopted the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法（試行）》) to calculate its capital adequacy ratio, under which credit risks are measured by the weighted method, market risks are measured by standard method and operational risks are measured by basic indicator approach, and the scope of this calculation covers all branches of the Bank as well as subsidiaries which are financial institutions which comply with the Administrative Measures for the Capital of Commercial Banks (Provisional) (《商業銀行資本管理辦法（試行）》). The following table sets forth the relevant information of the Group's capital adequacy ratio as at the dates indicated.

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018	As at 31 December 2017
Core Tier 1 capital adequacy ratio	10.50%	10.69%
Tier 1 capital adequacy ratio	10.53%	10.72%
Capital adequacy ratio	14.28%	12.00%
Portion of paid-in capital that may be included	9,808.27	9,808.27
Portion of capital reserve that may be included	10,860.99	10,581.74
Surplus reserve	4,398.57	3,777.43
General risk reserve	9,448.54	8,718.22
Retained earnings	17,277.80	15,114.41
Portion of minority interests that may be included	1,121.43	991.18
Others	1,067.15	(1,955.55)
Total core Tier 1 capital	53,982.75	47,035.69
Regulatory deductions for core Tier 1 capital		
Goodwill and other intangible assets (excluding land use rights)	(442.15)	(590.29)
Core Tier 1 capital, net	**53,540.60**	**46,445.41**
Other Tier 1 capital		
Portion of minority interests that may be included	140.34	132.16
Net Tier 1 capital	**53,680.94**	**46,577.56**
Tier 2 capital		
Tier 2 capital instruments and related premium that may be included	14,096.66	4,096.65
Excessive loan loss allowances	4,741.12	1,144.23
Portion of minority interests that may be included	288.22	328.66
Net capital	**72,806.95**	**52,147.11**
Total risk-weighted assets	509,836.94	434,513.31

As at 31 December 2018, the capital adequacy ratio of the Group was 14.28%, representing an increase of 2.28 percentage points over the beginning of the year, mainly due to the growth rate of net capital exceeded that of risk-weighted assets compared with the beginning of the year. Net capital amounted to RMB72,807 million, representing an increase of RMB20,660 million or 39.62% over the beginning of the year, mainly due to the increase in retained profit and other comprehensive income, the issuance of tier-two capital bonds of RMB10,000 million and increase in excessive loan loss allowances. Risk-weighted assets amounted to RMB509,837 million, representing an increase of RMB75,324 million or 17.34%, mainly attributable to the size of substantive loans increased significantly compared with the beginning of the year and the off-balance sheet business credit risk-weighted assets and market risk-weighted assets also increased compared with the beginning of the year.

V. ANALYSIS OF LEVERAGE RATIO

As of 31 December 2018, the Group measured and disclosed the 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)》).

(Expressed in RMB million, unless otherwise stated)	As at 31 December 2018
Net Tier 1 capital	53,680.94
The balance of assets on and off balance sheet after adjustments	800,688.44
Leverage ratio (%)	6.70

VI. SEGMENT INFORMATION

The Group conducts its business principally in Guangdong Province, the PRC. Its major customers and non-current assets are located in Guangdong Province, the PRC.

Summary of business distribution

Operating income

(Expressed in RMB million, unless otherwise stated)	For the year ended 31 December 2018			
	2018		2017	
Item	Amount	Percentage of total	Amount	Percentage of total
Corporate banking business	9,202.35	44.53%	6,678.33	49.55%
Retail banking business	5,678.14	27.47%	5,839.96	43.33%
Treasury business	5,392.38	26.09%	827.75	6.14%
Others	393.80	1.91%	132.62	0.98%
Total operating income	20,666.67	100%	13,478.66	100%

VII. ANALYSIS OF OFF-BALANCE-SHEET ITEMS

The Bank's off-balance-sheet items mainly include loan commitments, acceptance bills, undrawn credit card limits, issuance of letters of guarantee and issuance of letters of credit in the course of ordinary business of the Bank. As at 31 December 2018, the balances of loan commitments, acceptance bills, undrawn credit card limits, issuance of letters of guarantee and issuance of letters of credit were RMB92,400 million, RMB9,968 million, RMB13,685 million, RMB23,430 million and RMB1,238 million, respectively.

VIII. CONTINGENT LIABILITIES AND ASSETS PLEDGE AS SECURITY

For details on the Group's contingent liabilities and assets pledge as security as at 31 December 2018, please refer to notes 44 and 46 of the consolidated financial statements.

BUSINESS OPERATION

In 2018, with internal marketization as the Bank's principle, and based on the concept of "marketing clustering, trading marketization, outlets neutralization", the Bank developed a "market logic-oriented yet timely and effective" performance management system and a marketing management system with the principle of "intensive back office + focus on the front office", which structured the Group and its business strategies with small and medium enterprises, Sannong, inclusive and small and micro enterprises, etc., with a view to establishing an integrated professional marketing conglomerate, strengthening synergistic marketing and promoting the overall steady development of the Bank.

I. Corporate Banking Business

(I) Corporate Deposit Business

Amounts due to customers are major capital sources of the Bank. In this regard, the Bank established a smart deposits-oriented deposit product system, and a payment and settlement system focusing on enterprise cash management, which through analysing the segmentation of its customers, formulating differentiated assessment incentives, strengthening real-time tracking mechanism and process supervision, and providing targeted comprehensive financial services, the Bank strived to enhance its project reserves continuously and integrate and utilize various deposit products and technologies comprehensively, and thereby driving a steady growth in its corporate deposits business. As of 31 December 2018, the balance of corporate deposits of the Bank ranked third in Guangzhou region.

(II) Corporate Loan Business

Benefiting from the Bank's proactive response to the national strategies of enhancing the capability of financial servicing within the real economy, the Bank had been focusing on serving the real economy and the structural reform on supply side and adjusting the business structure in a timely manner, thus the corporate loan business of the Bank achieved good results. As of 31 December 2018, the balance of corporate loans of the Bank ranked second in Guangzhou region.

(III) Trading Bank Business

Through integrating domestic and foreign currencies as well as online and offline channels, the Bank established a trading bank product system consisting of five major product series, namely, the cash management series, bank securities series, supply chain series, cloud bank series and cross-border business series. The Bank also launched a number of innovative products, such as Enrich•Corporate Settlement Card (智盈•單位結算卡), and became the first rural commercial bank in the PRC that carried out corporate settlement card QR code payment business authorized by China UnionPay. Sun Cloud Bank business was launched to extend bank services to online ecological circles of Internet finance. The Bank also created a new service model by launching the comprehensive financial service mode of "Fresh Life" industry chain and cross-border supply chain financing business. Furthermore, its featured product "Cross-border Financing Link" was even awarded with the Third Prize in the Competition of International Business Service Innovation of Banks in Guangdong Province (廣東省銀行業國際業務服務創新競賽三等獎). In addition, the Bank's securities business achieved a surging growth as 11 government-related business systems including the urban capital monitoring, pension insurance business, etc. were in operation, contributing low-cost deposits and comprehensive income to the Bank.

The comprehensive benefits driven by establishing a comprehensive service system of trading bank business increased in leaps and bounds in contribution to the Bank. While achieving business development, the Bank also ensured the compliant operation of the trading bank business through measures like refined management, accelerating the functional development of business supporting systems and enhancing internal control management, etc.

II. Personal Banking Business

(I) Personal Deposit Business

Savings deposits grew steadily, the scale of which ranked third among banks in Guangzhou region. The Bank firmly established a "deposit-based banking" business direction by keeping abreast of the pricing sensitivity of deposit products, launching various deposit campaigns and improving the collaborative synergy with wealth management. The Bank devoted greater efforts to the enhancement of product innovation, the optimization of the functions of the Bank's existing deposit products and the development of innovative products. As of the end of December 2018, the time point balance of savings deposits was RMB236,463 million, representing an increase of RMB20,988 million or 9.74% over the beginning of the year. Time point growth was 4.45% higher than the average level of rural commercial banks in the Guangdong regional market. Daily average savings deposits reached RMB221,231 million, representing an increase of RMB12,152 million or 5.81% over the beginning of the year.

(II) Personal Loan Business

To enhance customer experience, the Bank, while ensuring risk being manageable, continued to expand its customer base by updating its online consumption loan businesses. Through enlarging the Bank's prioritized customer group, establishing channels to source for high quality customers and organizing bulk processing of credit pre-approval, the Bank strived to enhance user experience for high-end customers, and provide them with efficient and convenient financial services, and thereby satisfying the gradual increase of consumer demand arising from the enlarging customer base. In 2018, the Bank introduced a product upgrade based on the offline version of "Villagers Dividends and Fast Loans" (村民分紅快貸) launched in 2017, and developed the online version of "Villagers Dividends and Fast Loans" (村民分紅快貸) which supports online operations throughout the entire process. The online version can effectively resolve typical problems including "complicated procedures, high approval threshold, long operation and procedural workflow" (「手續繁瑣、門檻高、業務流程長」), which rural customers may encounter during their applications for loans. This product was launched in late July 2018, and as at the end of December 2018, the Bank approved 548 loan applications in an aggregate amount of RMB51.42 million. As at the end of 2018, the Bank granted RMB9.929 billion of traditional consumption loans, RMB50.679 billion of mortgage loans, and the time point balance of new consumption loans amounted to RMB1.637 billion, representing an increase of RMB394 million or 32% as compared with the beginning of the year.

(III) Bank Card Business

In 2018, leveraging on the foundation of its debit card products, the Bank continued to incentivize the development of debit card products. Through a series of marketing activity "Flower City Card, inviting you to visit the Flower City" (「花城卡，邀您逛花城」), the Bank endeavoured to promote the "Sun • Flower City Card" (「太陽•花城卡」) and render high quality debit card services to its customers, which has gained great recognition from the market.

As of the end of 2018, the Bank issued an accumulation of 1,046,800 new personal debit cards, and had 6,810,500 existing personal debit cards. The cumulative deposit balance of existing personal debit cards amounted to RMB95,003 million, representing a year-on-year increase of RMB18,715 million. In 2018, the cumulative spending related to the debit cards of the Bank amounted to RMB69,163 million, and the various fee income arising from personal debit cards reached RMB73 million.

With respect to the credit card business, the Bank enhanced product innovation and launched various new products such as "World Cup Platinum Visa Card" (Visa世界盃白金卡), "Sun WE (Student) Credit Card" (太陽WE（學生）信用卡), "Sun Goddess Credit Card" (太陽女神信用卡), and "Sun Village Affair Card" (太陽村務卡). In addition, the strengthening of the Bank's marketing and promotional activities resulted in a steady increase in the scale of cards in issue and a continued growth in spending amount. Adhering to the principle of "favorable rates to quality customers", the Bank conducted tiered pricing and targeted marketing on its customers, while through optimizing the structure of its sources of revenue, the Bank vigorously developed featured high-income installment business with a brand-new installment product for vehicle plate number, and thereby fostering high-income credit card products and increasing the overall contribution of customers. Meanwhile, the Bank proactively promoted the brand building of credit cards, consolidated cross-sector alliance, and constantly upgraded product interests, which enhanced customers' loyalty. As of the end of December 2018, the total number of credit cards in issue reached 1.4136 million, representing an increase of 0.1957 million over the end of last year. In 2018, the operating income generated from the credit card business of the Bank reached RMB717 million, representing a year-on-year increase of 6.78%. In 2018, the Bank's intermediate income from credit card business reached RMB516 million, representing a year-on-year increase of 17.93%.

III. Financial Market Business

The Bank's financial market business mainly covered fund operation business, wealth management business, investment business, bill rediscounting business and asset custody business. In 2018, given the stringent financial regulation environment, unabated deleveraging trend and frequent rollout of regulatory policies related to the financial market business in the PRC market, the financial market business was confronted with limited investment scope and scale. In order to push forward the steady development of financial market business, the Bank adjusted its investment strategy in a timely manner and continued to facilitate the transformation of various businesses. Firstly, investment research capability and market research and judgement ability were improved so that the Bank could seize investment opportunities in the market; secondly, the transformation into wealth management business was pushed forward proactively, and the products were transformed to net-value ones; and thirdly, the construction of Zhujiang financial institutions cooperation platform was promoted in a proactive manner to facilitate interbank business transformation. As of the end of 2018, the total assets scale of the financial market business was RMB382,039 million, with operating income of RMB5,392 million.

(I) Fund Operation Business

The fund operation business of the Bank mainly comprised the businesses of placements with banks and other financial institutions, repurchasing and deposits with banks and other financial institutions. Our customer base basically covered member institutions in the interbank market, which enhanced the Bank's influence in the interbank market.

In 2018, the Bank's position in the industry continued to improve as it was awarded "Outstanding Trading Institution in Interbank Local Currency Market 2018" by the National Interbank Funding Centre, "Excellent CCDC Member in 2018" and "Outstanding Financial Bond Issuing Institution 2018" by the China Central Depository & Clearing Co., Ltd., etc.

(II) Wealth Management Business

The Bank revised the wealth management business portfolio proactively to diminish the portion of interbank wealth management and boost the retail wealth management business. As of the end of 2018, the balance of wealth management products was RMB106.537 billion.

From the perspective of product operation mode, we constantly increased our effort at the marketing of open wealth management products and optimized the customer experience on products. As of the end of 2018, the balance of open wealth management products amounted to RMB23.290 billion, accounting for 21.86%. In terms of product innovation, the Bank continuously promoted the transformation to net-value products and launched a series of open net-value wealth management products named "Sun Great Wealth" (太陽嘉富). As of the end of 2018, the balance of net-value wealth management products was RMB2.890 billion. As to business channels, in 2018, the Bank commenced its entrusted agents-selling business of Renminbi wealth management products. As of the end of 2018, the Bank reached preliminary intentions of cooperation with nearly 20 financial institutions and established agents-selling cooperative relationship with 10 financial institutions. The Bank also created the brand of a series of agents-selling wealth management products named "Sun Mutual Benefit" (太陽同盈) and implemented nine phases of cooperation regarding agents-selling of wealth management products with the cumulative amount of RMB548 million.

The Bank's wealth management investment focused on money market instruments, debt securities and enhanced bond fund. As of the end of 2018, the investment balance of debt securities and money market instruments amounted to RMB65,355 million, accounting for 63.32% of the total, the investment balance of enhanced bond fund amounted to RMB9,732 million, accounting for 9.43% of the total, and the rest of the investment amounted to RMB28,122 million, accounting for 27.25%.

During 2015 to 2018, the Sun Wealth Management products of the Bank won the "Junding Award for Chinese Urban Commercial Banks (Rural Commercial Banks)" for four consecutive years. In the national bank wealth management capability ranking report for 2018 issued by PY Standard, the Bank ranked 1st in terms of comprehensive wealth management capabilities among rural financial institutions for four consecutive quarters. The Bank ranked top three in terms of the integrated capability of rural financial institutions in the evaluation of integrated capability in wealth management of banks in China during the first half of 2018 issued by China Banking Wealth Management Registration & Depository Center.

(III) Investment Business

The Bank invested in debt securities issued by various types of issuers, as well as other debt instruments issued by financial institutions, including asset management plans, trust fund plans, wealth management products issued by other financial institutions, money market funds and non-standard assets permitted by regulatory authorities. The debt securities invested by the Bank mainly included treasury bonds, financial bonds, local government bonds, short-term financing bills, medium-term notes, corporate bonds and asset-backed securities. The Bank continuously strengthened the capability development for investment research and the research and judgement for the market. For the purpose of higher profits, the investment approach was adjusted based on market conditions. The Bank also enhanced the sensitivities to macroeconomy and regulatory policies in order to capture transaction opportunity of treasury business and cash bond business.

Based on the business models and contractual cashflow characteristics of the investments, the Bank classified the investment business into financial assets measured at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss. As of 31 December 2018, the Bank's securities investment business totaled RMB227.853 billion.

(IV) Bill Rediscounting Business

The Bank conducted commercial bill rediscounting with financial institutions to maintain liquidity or earn interest income. The Bank was mainly engaged in bill buy-outs, bill sell-outs, bill repurchases and reverse-repurchases. Through implementing its strategy of developing comprehensive interbank banking business, the Bank cooperated with financial institutions, including commercial banks, fund companies and securities companies. In 2018, the trading volume of the Bank's bill rediscounting business (according to the basis of the Bank) amounted to RMB44.674 billion.

(V) Asset Custody Business

The Bank continued to promote the steady development of asset custody business by making greater efforts in expanding to various interbank custody customers. In 2018, the Bank's average daily scale of custody assets amounted to RMB562.313 billion, with a cumulative settlement amount of RMB3,768.3 billion and 98,000 settlements made. The Bank continued to put in place the safekeeping of custody assets by providing efficient and quality services on settlement, accounting and investment supervision, etc., as such, the custody operation was safe and no risk events occurred.

IV. Inclusive and SME Businesses

(I) Team Building

The organization structure was reshaped by establishing a professional operation and management system. In August 2018, the Bank optimized and adjusted the marketing organizational system through setting up an inclusive and SME business management department in the head office and 12 inclusive and SME business head offices in the core area in Guangzhou with 31 SME marketing teams thereunder.

(II) Product Innovation

The Bank launched the "Sun Inclusive" (太陽普惠) brand series based on the categories of villagers and non-villagers and online and offline, with inclusive and small and micro-sized business financial products such as "Sun•SME Loans (太陽•小微貸), Sun•Micro E-loan (太陽•微e貸), Sun•Business Loans for Villagers (太陽•村民致富貸), Sun•Villager E-loan (太陽•村民e貸)" being the focus of development.

(III) Financial Technology

The Bank proactively connected with the businesses of well-known third-party platforms which were strong and technologically advanced, for example, cooperation with Tencent, JD.com, Bay Area Capital (灣區資本), Ping An Puhui, Baidu Finance (百度金融) in areas such as inclusive finance, small and micro-sized business loans, syndicated loans and customers diversion. On the other hand, the Bank performed precise profiling on customers of more fields through access to third-party data such as taxation, industry and commerce, online property valuation, etc., coupled with updated risk control model, direct and fully automatic approval of small credit loans by system was realized.

(IV) Localized Development

Adhering to the principle of localized development, the Bank adopted the regional business head offices as the base stations and the community banks as supporting points, in an effort to penetrate into the regions, communities and customers through proactively expanding community-based and localized business, principally the business within 1km radius of the community banks, thereby reinforcing the differentiation of local inclusive, small and micro-sized enterprises and consumption customer groups, enhancing service capability and efficiency, while strengthening ability on risk control and post-loan management level.

V. Distribution Channels

(I) Physical Outlets

As of 31 December 2018, the Bank had 631 operating outlets, of which 619 were located in the Guangzhou region and 12 were non-local outlets in the province. The number of outlets of the Bank in the Guangzhou region accounted for approximately 23% of the total number of outlets of banks in the Guangzhou region, ranking first. The Bank operated five non-local branches in Foshan, Qingyuan, Heyuan, Zhaoqing and Zhuhai, six sub-branches (of which four sub-branches were newly established in 2018) and one sub-office.

(II) Self-service Banking

As of 31 December 2018, the Bank established 179 24-hour self-service banking facilities and the number of ATMs and self-service inquiry terminals amounted to 2,971, among which 2,170 were ATMs and 801 were self-service inquiry terminals.

(III) Internet Finance

The Bank has always adhered to the concept of "opening up innovation and cooperation for a win-win situation". With this in mind, it constantly explored new modes of internet finance development, and strived to build an "Internet + Inclusive" integrated financial platform. Through the core platforms and functions such as direct banking, mobile banking, online banking, WeChat banking and new-type payment, the Bank provided online and offline integrated financial services to more customers.

1. Direct banking

With the aim of establishing an open, shared, and inclusive financial ecosystem, the Bank's direct banking opened up its banking business and service to the online platform by relying on electronic accounts and independent gateway applications, and developed a system of deposit, wealth management, loan and value-added services and products, with the characteristics of internet. Also, through delivering products and services to campuses, business circles, communities and other convenient scenarios, our high-quality and convenient financial service platform was provided to customers who are difficult to be served and reached by traditional banking services and internet long-tail customers. As of 31 December 2018, the number of the Bank's direct banking customers was approximately 750,000. In 2018, the Bank's transaction amount of financial products of direct banking was approximately RMB22.243 billion.

2. *New-type payment*

The Bank's new-type payment business is a business of all-channel payment product system under the united brand "Sun Intelligent Pay", which integrates the businesses of various online and offline payment and order collection. For C-segment customers, "Sun Intelligent Pay" basically covered all major quick payment methods in the market, with comprehensive payment channels and flexible payment methods. For B-segment customers, "Sun Intelligent Pay" had multi-category cashier products targeting large, medium, small and micro merchants. These products had a package of order collection functions such as receipt, reconciliation and settlement of funds, and also had the advantages of unified payment portals, comprehensive payment channels and integrated reconciliation. As the main component of inclusive finance, "Sun Intelligent Pay" was strongly promoted in urban and rural areas in order to create convenient scenarios closely related to the life of the public, such as public transportation, medical treatment, education, business circles and markets, thereby constantly satisfying the diversified payment needs of residents in urban and rural areas and small and micro-sized entities. In 2018, the Bank had 388.7975 million new-type payment transactions with an amount of RMB270.852 billion.

3. *Online mall (Sun Market (太陽集市))*

The Sun Market online mall platform strived to integrate the advantageous agricultural service resources to implement the disintermediation of the agricultural industry chain, thereby establishing a new golden age for the transformation and upgrade of modern agricultural enterprises and farmers. A new mode of poverty alleviation through the industry of "Internet + Agriculture Industry Leader + Base + Farmer" was explored proactively, by which Sun Market could fully exert its new leading function of helping to alleviate poverty. In addition to the pioneer exploration of lightweight multi-level offline activity scenarios, the Bank created cultural and artistic collections and agricultural product theme offline experience special areas, creating diversified service scenes in a bid to fulfill the comprehensive needs of customers. As of 31 December 2018, the numbers of Sun Market's customers and partnered merchants were approximately 186,800 and 255, respectively. In 2018, the Bank received 194,800 orders, an increase of 36% year-on-year, while the total transaction amount for the year amounted to RMB28,961,400, an increase of 321% year-on-year.

4. *Mobile banking*

By using mobile communication network as transmission medium, mobile phone and intelligent mobile tablet as devices, software of APP customers as carrier, our mobile banking service rendered financial services to customers. As the Bank's high-frequency electronic channel, mobile banking adopted fingerprint log-in, fingerprint pay and facial authentication and other new technologies. In this respect, we continuously upgraded its functions and optimized the workflow. Its business covered not only the traditional financial services, but also value-added services such as living consumption, transportation, etc.. As of 31 December 2018, the number of the Bank's mobile banking individual customers was approximately 3,727,300. In 2018, the Bank's mobile banking made 12.2964 million financial transactions with the monetary amount of RMB298.351 billion.

5. *Internet banking*

The internet banking continues to improve financial products and life value-added service functions, providing quality and convenient electronic financial services to the customers of the Bank. As of 31 December 2018, the number of the Bank's personal internet banking customers was approximately 1,974,200, while the number of corporate internet banking customers reached 24,400. The Bank's personal internet banking made 5.8214 million financial transactions, while corporate internet banking made 1.5123 million financial transactions. The monetary amount of transactions of personal internet banking amounted to RMB286.918 billion, while the transaction amount of corporate internet banking amounted to RMB822.368 billion.

6. *WeChat banking*

WeChat banking is an open service portal established based on the official WeChat account of the Bank, which integrates publicity, customer service and financial tools. It provides customers with quality services such as wealth management information, credit card, life service, latest offer, account enquiry, and appointment for corporate account opening. Moreover, 7×24 intelligent online customer service is offered to accept enquiries and complaints, through which the products of the Bank are promoted in a casual manner, and thus enhancing both brand awareness and customer stickiness. As of 31 December 2018, the Bank's customers of WeChat banking reached 600,000.

7. *Cash management*

Through cash management services, the Bank helped customers optimize business processes, promote close integration of capital flow and information flow, reduce financial costs, increase capital gains, strengthen risk control, and effectively increase the value of their money.

8. *Corporate settlement card*

The corporate settlement card provides the functions of account inquiry, transfer and remittance, cash deposit and withdrawal, POS consumption and public goods contract, etc., thereby providing convenient financial services for corporate customers. As of 31 December 2018, the number of the Bank's corporate settlement card users exceeded 16,100, and more than 500,300 transactions occurred with a transaction amount of RMB2.708 billion.

9. *Smart banking*

As of 31 December 2018, the Bank installed a total of 56 smart banking outlets and smart facilities including VTM and STM. Financial transactions worth RMB3,429 million have been settled in 2018.

VI. Principal Subsidiaries

Zhujiang County 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, strengthening 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. During the Reporting Period, the Bank put more efforts in the assistance to the village and township banks and steadily improved the operations of the village and township banks. As of 31 December 2018, the Bank established 25 Zhujiang County Banks in 9 provinces and cities of China.

Zhujiang Financial Leasing Co., Ltd., incorporated and commenced operation in December 2014, is a wholly-owned subsidiary promoted and established by the Bank, with a registered capital of RMB1 billion. It is mainly engaged in financial leasing related business.

Hunan Zhuzhou Zhujiang Rural Commercial Bank Co., Ltd., incorporated and commenced operation in December 2017, is a holding subsidiary of the Bank, with a registered capital of RMB0.6 billion. It is mainly engaged in monetary financial business.

VII. Information Technology

In 2018, the Bank proactively propelled the establishment of information system and continuously intensified the supporting role of information technology in the development of banking business. In 2018, all important information systems of the Bank maintained a stable operation, and no unplanned system outages occurred.

(I) Technology Governance

The Bank focused on enhancing the ability of science and technology governance and the improvement in the capabilities of technology management. The Innovation and Technology Construction Committee under the senior management of the Bank organized and convened multiple meetings, at which a series of important proposals were considered, including the Technology Construction Plan for 2018, Information Technology Compliance and Construction Work, Information System Level Protection Work and Information System Security Assessment for 2018. The establishment of information technology management system commenced, and the addition and revision of fourteen scientific and technical systems and operating procedures were completed. In addition, the Bank carried out reforms on the performance appraisal of scientific and technical personnel, improved the project management system, strengthened IT infrastructure management, strengthened the establishment of the information security system, business continuity system, and operation supervision, which effectively improved the capacity of science and technology in terms of independent research and development and business support.

(II) Information Security Guarantee

Following the Bank's continuous improvement on the development of the information security system, in 2018, the Bank supplemented and improved eight parts of the information security management system, conducted various tests such as regular and special information security inspections, classified protection assessment on system, penetration tests, etc., such that rectification was performed on known potential safety hazards in a timely manner. The Bank also carried out network security emergency drills to ensure effective response to network security emergencies.

(III) Business Continuity Management

In 2018, the Bank developed and issued a bank-wide business continuity plan for guiding institutions of various levels to quickly reduce and eliminate the impact of major disruption of business operation as a result of emergencies. The Bank further strengthened its business continuity management capability by pushing the improvement on its business continuity management mechanism and establishing comprehensive procedures for major businesses and important information systems. The Bank implemented and promoted projects with high availability such as load balancer, file storage, etc., completed the development of online banking, mobile banking, direct banking, international settlement system, credit system, same-city disaster recovery backup application-level system, with the coverage ratio of application-level disaster recovery backup of important information system increasing from 74% to 95%. The Bank effectively enhanced the capability on safeguarding the basic operating environment by commencing work on local high-availability projects with core dual storage. Through organizing and conducting important system and network switch drills, the Bank kept raising its business continuity emergency response level.

(IV) Development of Information Technology

The Bank fully promoted system establishment in respect of the Internet finance and retail business system, corporate and interbank market business system, big data innovative application, credit card system activation, internal operation management system, with 21 system projects, including the new e-commerce platform, asset custody internet banking, savings and treasury bonds underwriting, new electronic commercial draft and new wealth management and sales, etc., commencing operation throughout the year.

The Bank steadily promoted the implementation of big-data technology and strived to push forward its exploration and practice, so as to further optimize the data service structure and demonstrate the value of data application through the construction of big-data platform and data laboratories. Through integrating the internal and external data by utilizing the big-data platform to construct a bank-wide indicator pool and model base, the Bank provided big-data support to risk control, marketing and other businesses by realizing data sharing.

VIII. Human Resources Management

As of the end of December 2018, the Bank had 7,221 employees who entered into labor contracts with the Bank, representing a decrease of 55 people compared with last year. Of whom, there were 1,498 people aged below 30, accounting for 20.75%; 2,319 people aged between 31 to 40, accounting for 32.11%; 2,757 people aged between 40 to 50, accounting for 38.18%; 647 people aged above 51, accounting for 8.95%. Categorized by academic qualifications: there were 723 people with a master's degree and above, accounting for 10.01%; 4,059 people with a bachelor's degree, accounting for 56.21%; 1,774 people with college education, accounting for 24.57%; 665 people with secondary vocational school education, senior high school education and below, accounting for 9.21%.

(I) Human Resources Management

In 2018, centering on its bank-wide strategic deployment, the Bank kept intensifying the transformation and upgrading of human resources management. On the one hand, the optimization for the Bank's human resources structure was pushed forward with full power. The Bank attracted external talents from various sources and implemented multi-level and systematic trainings for special talents in order to build a reserve of talent team for key positions. Moreover, it explored a more scientific method for talent allocation, and enhanced the performance per individual. On the other hand, the employee evaluation mechanism and incentive mechanism were improved to strengthen the management of employees' behavior. In the evaluation, the Bank advocated the values of healthy and positive behavior and the evasion of ethical risk in employees. Also, it continued to take good care of its employees with services for their livelihood protection. It enhanced the cohesiveness and combat power of the workforce and laid a solid talent basis for the rapid development of the Bank's business.

(II) Training

The Bank stayed committed to the improvement of the occupational quality of staff. The Bank went on perfecting our internal corporate university "Zhujiang Business School". Based on the working requirements of "penetrating the business nature and leading the business transformation", the Bank stood firm in the industry with a care for all staff. In 2018, more than 400 training programs were organized and launched, which covered a total of over 50,000 attendees across all levels of employees. Meanwhile, by fully leveraging the mobile learning system platform, 1,760 courses were provided for all employees in the system and 30 hours of online learning per individual was recorded.

THE PROTECTION OF THE INTERESTS OF FINANCIAL CONSUMERS

I. Improving the Development of System for Protecting the Interests of Financial Consumers

Pursuant to the latest regulatory requirements, the Bank amended various systems such as the "Operating Procedures of Audio and Video Recording for Sales of Personal Wealth Management and Agents-selling Products of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行個人理財和代銷產品銷售錄音錄像操作規程》), "Administrative Rules on Retailing and Agents-selling Businesses of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行零售代銷業務管理細則》) and "Special Emergency Plans for Emergencies of Direct-selling Banking Business of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行直銷銀行業務突發事件專項應急預案》), and formulated the "Administrative Measures on the Appropriateness of Sales of Wealth Management Products of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行財富類產品銷售適當性管理辦法》), which strengthened the vertical transmission and effective implementation of the policies and requirements for the protection of interests of financial consumers. Therefore, the Bank's system and mechanism for protecting the interests of financial consumers were improved.

II. Strengthening Product and Service Management

Firstly, the consumer protection review work was strengthened. Prior review and management mechanisms for new products and services were established. Through effective implementation of regulatory requirements, the requirements of consumer protection works were fully implemented in products and services at the product design and development stage.

Secondly, "Sun Micro-loan for Poverty Alleviation" (太陽扶貧小額貸), "Planting Craftsman" (種植匠), "Villager E-Loan" (村民e貸) and Homeland Card (家園卡) were developed for under-developed regions and low-income groups, and the 2018 plan for promotion of inclusive finance work was formulated, thereby materializing "benefits from finance to the general public" effectively.

Thirdly, the construction work of star outlets of the Bank was organized and carried out, and a volunteer team of "Sun•Heart" (太陽•心) was organized and deployed to business outlets to conduct the inspection of service environment of the Bank's outlets, during which problems were found and rectified in a timely manner. As a result, the service environment of the Bank's business outlets was improved and a comfortable and clean service environment of business outlets was offered to financial consumers.

Fourthly, privacy protection facilities were installed in all self-service devices. When the customers conducted self-service business, the theft of customer passwords could be prevented by installing a side-recording device, so as to guarantee the safety of consumers' funds. Protective cabins were installed for self-service devices in newly-decorated business outlets, so that only the customers were allowed to operate in the cabins, which could effectively protect the security of consumers' information. In addition, the Bank gradually transformed to high-definition cameras for business outlets and self-service banks. In the event of a business dispute, they can clearly record the process and provide effective protection in settling disputes.

Fifthly, the telecommunication and other frauds were prevented effectively. The Bank proactively cooperated with the public security authorities for inquiries and freeze work, and carried out research and development and compatible connection work in respect of the system for preventing new telecommunication and network crimes (network inspection and control system). In 2018, the Bank successfully intercepted a total of 20 fraud cases involving telecommunication, and recovered an economic loss of RMB1.082 million for customers.

III. Strengthening protection of personal information

Firstly, identity authentication, authorization management and follow-up audit were further standardized and strengthened. The Bank's encryption platform was in operation, which encrypted the users' PIN, MAC verification, ARQC verification and CVN generated. Also, for important business systems, the Bank adopted technologies such as verification of SMS verification codes, security password keyboard/LCD dynamic token and UKEY on an as-needed basis, in a bid to strengthen the protection of personal information on financial consumers.

Secondly, the protection of personal information was strengthened based on the degree of risk of different business types. A variety of authorization modes and authorization levels (for example, authorization by the same device, authorization by a different device and remote authorization after double check) were utilized to achieve the prevention and control of risks. In respect of large sum transactions through corporate channel, mobile account opening business, credit system, electronic commercial draft business and international settlement business, etc., risk control was achieved by performing second authorization and review through implementing back-office operation and counter review. With regard to the mobile banking business, identity authentication and authorization management measures were strengthened by technologies like using facial recognition technology to perform identity identification, verifying SMS verification code, security code keyboard, LCD dynamic token and UKEY, etc. for businesses involving high customer risk such as account opening, contracts entered into by channels, transfer, agreements, etc.

Thirdly, risk control on personal information and fund protection was strengthened. On the one hand, the anti-fraud system based on physical characteristic techniques for equipment, IP, etc., was used to monitor and prevent fraudulent behaviour through measures like internal accumulation or external sharing of list and data related to fraud, anti-fraud model, etc., so as to ensure customers' information was accurate, complete and secured. On the other hand, by carrying out risk analysis, warning and judgment on customers' fund through real-time monitoring measures, protection of the safety of customers' fund was maximized.

IV. Enhancing initiative on promotion and education

The Bank organized approximately ten promotional and educational activities on special subjects targeting financial consumers, such as the "3•15 Dissemination of Consumer Rights Protection (3•15消費者權益保護宣傳)", "Financial Knowledge Popularisation Campaign (普及金融知識萬里行)", "Delivering Financial Knowledge to Households (金融知識進萬家)", "Delivering Financial Knowledge to Schools (金融知識進萬家)", "Promoting Financial Knowledge, Guarding Your Money Bag (普及金融知識，守住'錢袋子')", "Safe Finance Promotional Month (平安金融宣傳月)", "Network Security for People, Network Security by People (網絡安全為人民，網絡安全靠人民)", as such, consumers' financial knowledge was greatly enhanced and awareness of financial risk management was boosted.

V. Carrying out internal staff training

Targeting outlet basic personnel who has broader contacts with the consumers, the Bank organized business trainings in respect of sales compliance, customer relations maintenance, outlet operation management system (queuing system), enhancement of counter service capability, public opinion and complaint handling skills, etc., for nearly 1,800 people including persons in charge, head of operation and all integrated customer mangers in all outlets, thereby infusing the concept of customer rights protection into the ordinary work of basic personnel and enhancing the customer service experience.

RISK MANAGEMENT

In 2018, the Group insisted on focusing on risk management and control by strictly complying with the requirements of regulatory policies, regulating the management foundation, in an effort to continue to improve and optimize the risk management system. The Group improved the risk management structure and strengthened the vertical and independent risk management; with the improvement on the risk appetite indicator system, the design of the top level was enhanced; following the amendments on policies, authorization process and various risk management systems, a solid management foundation was laid. Furthermore, team building was strengthened in order to increase professional capability and level; risk measurement and monitoring capability increased as risk management technologies and tools were enriched; with a view on paying attention to proactive risk management, various stress tests were conducted on a regular basis; various supervision and inspections were also performed in order to reveal and prevent risk.

During the Reporting Period, the Group's risk management capabilities and levels were improving as a result of the Group's ability to control its overall risks, together with the Group's sufficient capital, relatively sufficient liquidity, stable improvement of asset quality as well as effective internal control and management.

I. Credit Risk Management

Credit risk refers to the risk of economic losses arising from failure of the borrower or the counterparty of the Bank to fulfil relevant obligations as per the contract for various reasons.

With a view to enhancing the capabilities and levels of credit risk management and control, the Group earnestly implemented the state's regulatory policies, and continued to improve the management structure, mechanism and process, personnel management, system, tool, etc. First of all, it implemented the delegation system for the risk management team to strengthen the vertical and independent risk management. Secondly, based on changes in regulatory policies, it adjusted credit policies, and formulated credit resource allocation plans, investment plans and investment desirability models to guide credit resources to the desired customer base and business deployment. Thirdly, through applying the debt rating results of the non-retail internal rating system to the consideration of cases, credit line access management was strengthened. Fourthly, by perfecting and unifying the systems and measures in relation to credit granting, credit drawdown and post-loan, management on the "three-check" system against credit risk was enhanced. Fifthly, personnel's professional skills were improved with continuous appraisal and skill training on persons responsible for examinations and approvals. Sixthly, with enhanced post-loan management and implementation of appraisal mechanism, the quality of post-loan check was raised, in addition, high-risk customers were strictly controlled by implementing a list system as increasing efforts were made on terminating loans to customers with potential risk. Seventhly, through carrying out the bank-wide absolute collection activity to convey the importance of responsibility to every level, collection, disposal and write-off of non-performing assets was strengthened. Eighthly, the risk-weighted average asset measurement system was in operation, coupled with the development and implementation of the impairment measurement model under IFRS9, as well as the improvement on the non-retail internal rating system, the technological level of risk management continued to increase. Ninthly, following the issuance of the overall plan regarding comprehensive governance of asset quality focusing on system, human and technical defense, business process management and human behaviour control was reinforced, in an effort to establish a long term effective mechanism to promote cause identification and problem solving with regard to asset quality.

II. Liquidity Risk Management

Liquidity risk refers to the risk that sufficient funds cannot be obtained at a reasonable cost in time to meet due debts, perform other payment obligations and meet other capital needs of normal business.

The objective of liquidity risk management of the Group is to meet the liquidity needs arising from assets, liabilities and off-balance sheet businesses and fulfil payment obligations to external parties in a timely manner under the normal operating environment of the Group or at a highly stressed condition through the establishment of a scientific and comprehensive liquidity risk management mechanism and effective identification, measurement, monitoring and reporting of liquidity risks, so as to maintain the balance between effectiveness and security of funds.

The Asset/Liability Management Committee is responsible for formulating policies and strategies relating to overall liquidity risk management of the Group, and the Asset/Liability Management Department is responsible for implementing liquidity risk management policies and strategies and monitoring and evaluating liquidity risks. Various business lines provide active cooperation in liquidity management.

In 2018, the Group continued to implement liquidity risk policies and various measures for liquidity risk management, and enhanced the uniform and centralized management of liquidity risk. The specific management measures included: Firstly, the Group ensured the management of daily capital positions, with the treasurer to comprehensively arrange and allocate the capital positions for the whole Bank, and conduct timely monitoring and proper supplementation to guarantee the safety of provisions. Secondly, the Group included the requirements for liquidity risk management into its business plan to ensure limiting the existing quality liquidity assets within a safe range. Thirdly, based on the risk preference in liquidity risk approved by the Board of Directors, the Group formulated limits on liquidity risk every quarter, and monitored the execution of the risk limit every month and assessed the execution every quarter to ensure liquidity risk is under control. Fourthly, the Group monitored liquidity indicators monthly and made forward-looking predictions of liquidity indicators and gaps, and timely identified risks, and made reasonable capital arrangement. Fifthly, the Group reinforced the treasury trading platform in an effort to balance the earnings and losses of the Bank's assets through money market transactions from the prospective of the whole Bank. Sixthly, the Group carried out stress testing for liquidity risk quarterly to timely assess the Bank's liquidity risk tolerance and risk mitigating capability, and added stress testing during the important sensitive period to enhance the monitoring and prevention of liquidity risk on a timely basis. Seventhly, the Group proactively expanded the sources of deposits, and facilitated the sustained and rapid growth of deposits across the Bank by intensifying business linkage and marketing effort, improving the rate of settlement through the Bank and devoting extra effort in product innovation.

In 2018, the overall liquidity risks of the Group were under control, without any significant liquidity risk incidents, all key liquidity risk indicators of each month were able to meet the standards, and results of the stress test showed that the Bank had adequate risk mitigating capability to deal with crises under pressure.

III. Market Risk Management

Market risk refers to the risk of losses in on- and off-balance sheet businesses from adverse changes in market prices (interest rate, exchange rate, stock prices and commodity prices). Interest rate risk is the major market risk of bank accounts. The Group calculates interest rate sensitivity gap on a regular basis, and evaluates, through gap analysis, the interest rate risk that it undertakes, and further evaluates the impacts of changes in interest rate on net interest income and enterprises' net worth under different interest rates.

According to the requirements of Guidelines for Market Risk Management of Commercial Banks, Guidelines for Internal Control of Commercial Banks and Guidelines for the Stress Testing of Commercial Banks formulated by the CBRC, the Group manages its interest rate risk and foreign exchange risk with reference to relevant provisions under the New Basel Capital Accord, and has established a market risk management system by making provisions on, monitoring and reporting the authorization, credit extension and risk limits.

In China, as interest rates become more market-oriented, changes in interest rate risk became more complex and interest rate risks become more closely correlated with other risks of banks. The Group remained concerned about changes in currency policies and market prices, and took a number of measures to enhance the capability to manage market risk. Firstly, the annual basic investment policy was formulated to specify the management regulations on admission, concentration, leverage, duration, warning and stop-loss. Secondly, the development of system was enhanced, which revised the rules and regulations for due diligence, review and approval, lending, and post-investment management of financial market business, and standardized business operation and management. Thirdly, the Bank implemented the monitoring mechanism of financial market business risk, so that risks can be alerted and addressed promptly.

IV. Operational Risk Management

Operational risk refers to the risk of losses caused by imperfections or faults of internal procedures, staff and system, or external events. Operational risks of the Group are classified mainly into internal risks and external risks. Internal risks mainly include risks arising from human factors, inappropriate procedures and operational processes, and failure of IT system. External risks mainly include risks caused by external emergencies.

In 2018, the Group continued to strengthen the standardization and management of business procedures and prevent operational risks. Firstly, it launched a series of activities themed on "Year of Compliance Culture", and enhanced the compliance awareness of staff on such aspects as thinking and understanding, business policies, management measures and supervision and inspection based on the activity theme of "making rules, understanding duties, having reverence and strengthening supervision", so that they strictly followed the rules and regulations when conducting business. Secondly, the Group steadily carried out business continuity management. The Group issued the important business continuity plan of the whole Bank, and formulated the key work plan for business continuity management of the whole Bank to expand the coverage of business continuity management in important businesses. Thirdly, the Group promoted information technology risk management work. Leveraging the role of the second and third lines of defense, the Group formulated the plan for evaluation, inspection and auditing works in relation to information technology risk for the year and strengthened its supervision over information technology risk. The Group also optimized the normalized information technology risk-related monitoring indicators system, and collected indicator data and analyzed risk trends on a quarterly basis. Fourthly, on-site inspections were organized and made on offsite contracted suppliers of information technology services, strengthening the risk identification and control of important outsourcing services and outsourced service providers through field inspections.

V. Implementation of the New Basel Capital Accord

Based on the regulatory requirements, the Group promoted the implementation of the new capital accord and gradually established a risk measurement model laboratory which developed various risk measurement and monitoring models. As such, the total number of model samples developed had been increasing, and the significance and representativeness of the model continued to increase. Besides, the comprehensive risk measurement system that satisfied the Bank's risk preference, risk limit, capital assessment and stress test was built. As of the end of 2018, the criteria of the Bank's capital measurement standard approach were satisfied, and the basic conditions of the advanced capital measurement approach (the foundation internal rating-based approach) were basically in place. The continuous optimization and improvement of project framework system laid a solid foundation for the Bank to realize the digital transformation of risk management.

In 2017, the Bank became one of the 33 banks in China implementing the FSAP stress test. In 2018, as one of the 10 urban commercial banks and rural commercial banks which conducted measurement based on new standard approach, the Bank participated in the RWA measurement based on new standard approach under the final plan of the Basel Capital Accord.

VI. Anti-money Laundering Conditions

In 2018, with a view to comprehensively improving the effectiveness of anti-money laundering and counter-terrorism financing, the Group kept improving the money laundering risk management system, and earnestly implemented various laws and regulations regarding anti-money laundering. By focusing on key areas and weak links, sound anti-money laundering mechanism and information system were established. Thus, the level of anti-money laundering work was improved constantly.

During the Reporting Period, the Bank issued Risk Reminder for 24 times, and a total of over 1,600 anti-money laundering staff were trained by attending various on-site and off-site training, which effectively raised the anti-money laundering awareness of the Bank's staff, and facilitated the development of ability to perform duties of the anti-money laundering staff and implementation of the internal control system. The Bank took an active part in anti-money laundering publicity to vigorously popularize anti-money laundering knowledge, which achieved good publicity effects.

INTERNAL AUDIT

The Bank has established an independent and vertical internal audit management system. The Bank has an audit committee under the Board of Directors. The audit committee guides, assesses and evaluates the internal audit work of the Bank based on the authorization of the Board of Directors with the Board of Supervisors supervising the internal audit work. The internal audit department reports the audit work to the Board of Directors or its audit committee, the Board of Supervisors or its audit and supervision committee regularly, submits audit report on a timely basis and circulates it to the senior management. The internal audit department fully performed the audit supervisory function of the third risk defence. Through audit and evaluation, the internal audit department continued to improve the Bank's corporate governance, risk management and internal control, and accelerated the Bank to strengthen its operation management, enhance level of internal control management, curb irregularities of staff, eliminate hidden risks and hazards as well as safeguard the steady development of business.

During the Reporting Period, adhering to the audit objectives of promoting and strengthening internal control, improving internal management and enhancing economic efficiency, the internal audit department fully implemented the work arrangements of the party committee, the Board of Directors, the Board of Supervisors and the Bank's leaders. Systematic and standardized audit methods were utilized to conduct special audits on business areas such as performance appraisal, information technology, comprehensive risk management, business continuity management, anti-money laundering, wealth management business and real estate loans. Also, the internal audit department conducted internal control evaluation audits on the whole Bank and Zhujiang Financial Leasing Co., Ltd., and conducted comprehensive business audits on controlled rural banks. These efforts promoted the overall improvement of the Bank's internal control, and facilitated the sustainable and stable development of various business segments. By utilizing innovating management methods and improving functions of the audit system, a comprehensive process of audit management was achieved. The internal audit department also rotated the tasks among the audit personnel within the department through two-way selection, thereby making the best use of human resources by putting them in the right position, and achieving the optimal allocation of audit resources. Moreover, the internal audit department implemented normalized and specialized construction of audit. Through smoothing out business procedures, formulating audit guidance and training on audit, the internal audit department achieved the sharing of audit information and experience, and improved the professional quality of audit staff members.

CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

I. CHANGES IN SHARE CAPITAL

Unit: Share, %

	As at 31 December 2017		Change during the Reporting Period	As at 31 December 2018	
	Quantity	Proportion	Amount of Change	Quantity	Proportion
Total share capital	**9,808,268,539**	**100**	**–**	**9,808,268,539**	**100**
Non-overseas listed shares held by legal persons	**5,585,559,888**	**56.95**	**(609,000)**	**5,584,950,888**	**56.94**
Including: Shares held by state-owned legal person shareholders	1,796,589,712	18.32	–	1,796,589,712	18.32
Non-overseas listed shares held by natural persons	**2,402,373,651**	**24.49**	**609,000**	**2,402,982,651**	**24.50**
Including: Shares held by internal staff members	370,438,208	3.78	340,000	370,778,208	3.78
Overseas listed foreign shares	**1,820,335,000**	**18.56**	**–**	**1,820,335,000**	**18.56**

Notes:

(1) As of the end of the Reporting period, the total number of domestic shareholders of the Bank was 29,149, and all the Domestic Shares were deposited in China Securities Depository and Clearing Corporation Limited. The total number of shareholders of H Shares was 101 (of which HKSCC Nominees Limited, as a nominee, acted on behalf of several shareholders).

(2) The shares held by state-owned legal persons represent the non-overseas listed shares of the Bank held by 14 state-owned legal person shareholders, including Guangzhou Finance Holdings Group Co., Ltd., Guangzhou Pearl River Enterprises Group Co., Ltd., etc.

II. ISSUE, PURCHASE, SALE AND REDEMPTION OF SECURITIES

During the Reporting Period, the Bank and its subsidiaries did not purchase, sell and redeem any securities of the Bank.

III. SHAREHOLDINGS OF SHAREHOLDERS

(I) Total number of shareholders

As of 31 December 2018, the Bank had a total share capital of 9,808 million shares, comprising 7,988 million non-overseas listed shares and 1,820 million overseas listed shares. There were 716 legal person shareholders in possession of 5,585 million non-overseas listed shares, accounting for 56.94% of the total share capital. Among which, 14 were state-owned shareholders in possession of 1,797 million shares, accounting for 18.32% of the total share capital, while 28,434 were natural person shareholders in possession of 2,403 million non-overseas listed shares, accounting for 24.50% of the total share capital.

(II) Top Ten Shareholders as of the End of the Reporting Period

As of the end of the Reporting Period, the top ten shareholders of GRCB together held 41.56% of the Bank's total share capital, with no single holder of domestic shares having control of more than 5% of the total share capital, marking a dispersed shareholding structure. Among the top ten shareholders, the largest domestic shareholder was Guangzhou Finance Holdings Group Co., Ltd., which held 3.73% of the total share capital. The second largest shareholder was Guangzhou Pearl River Enterprises Group Co., Ltd. with 3.45% of the total share capital, and the third largest was Guangzhou Vanlead Group Co., Ltd. with 3.26% of the total share capital. These top three domestic shareholders are all enterprises solely-owned by the state.

The top ten shareholders are as follows:

No.	Name	Class of Shareholder	Nature of Shareholder	Number of Shares (Share)	Shareholding Proportion (%)[2]
1	HKSCC Nominees Limited [1]	H Shares	Other	1,819,966,950	18.55
2	Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司)	Domestic Shares	State-owned legal person	366,099,589	3.73
3	Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司)	Domestic Shares	State-owned legal person	338,185,193	3.45
4	Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司)	Domestic Shares	State-owned legal person	319,880,672	3.26
5	Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司)	Domestic Shares	State-owned legal person	310,728,411	3.17
6	Shanghai Dazhan Investment Management Co., Ltd. (上海大展投資管理有限公司)	Domestic Shares	Non-state-owned legal person	250,000,000	2.55
7	Guangzhou General Merchandise Group Co., Ltd. (廣州百貨企業集團有限公司)	Domestic Shares	State-owned legal person	191,749,019	1.95
8	Nanjing Gaoke Co., Ltd. (南京高科股份有限公司)	Domestic Shares	Non-state-owned legal person	180,000,000	1.84
9	Guangdong Zhujiang Roads & Bridges Investment Co., Ltd. (廣東珠江公路橋梁投資有限公司)	Domestic Shares	Non-state-owned legal person	160,020,000	1.63
10	Guangzhou Huihua Investment Co., Ltd. (廣州匯華投資有限公司)	Domestic Shares	Non-state-owned legal person	140,010,000	1.43
Total				4,076,639,834	41.56%

Note:

(1) HKSCC Nominees Limited, as a nominee, held 1,819,966,950 H Shares in aggregate in the Bank on behalf of several clients, representing approximately 18.55% of the issued share capital of the Bank. As a member of CCASS, HKSCC Nominees Limited conducts registration and custodian business for clients.

(2) Calculated on the basis of the total share capital of the Bank of 9,808,268,539 shares.

(3) As of the end of the Reporting Period, the Domestic Shares held by 1 natural person shareholder of the Bank were involved in judicial freezing, the total number of such frozen Domestic Shares was 201,000 shares, representing approximately 0.002% of the total share capital of the Bank.

(III) Internal Staff Members' Shareholdings

As of 31 December 2018, the Bank had a total of 5,688 internal staff member shareholders, holding 370 million shares, which accounted for 3.78% of the total share capital of the Bank.

(IV) INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES AND UNDERLYING SHARES UNDER THE REGULATIONS OF HONG KONG

Based on the knowledge of the directors or chief executives of the Bank, as at 31 December 2018, the following persons (other than the directors, supervisors or chief executive of the Bank) had, or were deemed or taken to have interests or short positions in the shares and underlying shares of the Bank which would fall to be disclosed to the Bank and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO. The details are as follows:

Name of shareholder	Nature of interest	Class of shares	Long/ short position	Number of shares held directly or indirectly (Share)	Approximate percentage of interest in the Bank	Approximate percentage of the relevant class of shares of the Bank
Guangzhou Municipal People's Government (1)	Interest of a controlled corporation	Domestic Shares	Long	1,786,589,712	18.22%	22.37%
Aeon Life Insurance Company Limited	Beneficial owner	H Shares	Long	295,229,000	3.01%	16.22%
Guangzhou HongHui Investment Co., Ltd (2)	Beneficial owner	H Shares	Long	200,991,000	2.05%	11.04%
Zeng Weipeng (2)	Beneficial owner	H Shares	Long	114,558,840	1.17%	6.29%
Liu Feng (3)	Beneficial owner	H Shares	Long	294,530,203	3.00%	16.18%
Good Prospect Corporation Limited (3)	Beneficial owner	H Shares	Long	294,530,203	3.00%	16.18%
Deng Geng (4)	Beneficial owner	H Shares	Long	294,554,000	3.00%	16.18%
East Lake Technology Limited (4)	Beneficial owner	H Shares	Long	294,554,000	3.00%	16.18%
Lei Manying (5)	Beneficial owner	H Shares	Long	220,517,797	2.25%	12.11%
NICE CITY ENTERPRISE LIMITED (5)	Interest of a controlled corporation	H Shares	Long	220,517,797	2.25%	12.11%
Lead Straight Limited (6)	Beneficial owner	H Shares	Long	195,229,000	1.99%	10.72%
Grandbuy International Trade (HK) Limited (6)	Interest of a controlled corporation	H Shares	Long	195,229,000	1.99%	10.72%
Guangzhou General Merchandise Group Co., Ltd. (6)	Interest of a controlled corporation	H Shares	Long	195,229,000	1.99%	10.72%
Guang Rong Finance Company Limited (7)	Beneficial owner	H Shares	Long	104,347,000	1.06%	5.73%
GuangZhou Finance Holdings (HK) Co., Ltd. (7)	Interest of a controlled corporation	H Shares	Long	104,347,000	1.06%	5.73%
GuangZhou Finance Holdings Group Co., Ltd. (7)	Interest of a controlled corporation	H Shares	Long	104,347,000	1.06%	5.73%

Notes:

(1) These 1,786,589,712 shares include 366,099,589 shares directly held by Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), 338,185,193 shares directly held by Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司), 319,880,672 shares directly held by Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司), 310,728,411 shares directly held by Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司), 191,749,019 shares directly held by Guangzhou General Merchandise Group Co., Ltd. (廣州百貨企業集團有限公司), 137,283,914 shares directly held by Guangzhou Light Industry & Trade Group Co., Ltd. (廣州輕工工貿集團有限公司), 45,312,844 shares directly held by Guangzhou Jinjun Investments Holding Co., Ltd. (廣州金駿投資控股有限公司), 33,405,752 shares directly held by Guangzhou Lingnan International Enterprise Group Co., Ltd. (廣州嶺南國際企業集團有限公司), 18,304,522 shares directly held by Guangzhou Guangyong State-owned Assets Management Co., Ltd. (廣州市廣永國有資產經營有限公司), 9,152,261 shares directly held by Guangzhou Textiles Industry & Trade Holdings Ltd. (廣州紡織工貿企業集團有限公司), 7,052,469 shares directly held by Guangzhou Port Group Co., Ltd. (廣州港集團有限公司), 9,152,261 shares directly held by Guangzhou Development Zone Industrial Development Group Co., Ltd. (廣州開發區工業發展集團有限公司), and 282,805 shares directly held by Guangzhou Yunpu Industrial Zone Baiyun Enterprises Development Company (廣州市雲埔工業區白雲實業發展總公司).

By virtue of the SFO, Guangzhou Municipal People's Government is deemed to be interested in the shares held by Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), Guangzhou Pearl River Enterprises Group Co., Ltd. (廣州珠江實業集團有限公司), Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司), Guangzhou Radio Group Co., Ltd. (廣州無線電集團有限公司), Guangzhou General Merchandise Group Co., Ltd. (廣州百貨企業集團有限公司), Guangzhou Light Industry & Trade Group Co., Ltd. (廣州輕工工貿集團有限公司), Guangzhou Jinjun Investments Holding Co., Ltd. (廣州金駿投資控股有限公司), Guangzhou Lingnan International Enterprise Group Co., Ltd. (廣州嶺南國際企業集團有限公司), Guangzhou Guangyong State-owned Assets Management Co., Ltd. (廣州市廣永國有資產經營有限公司), Guangzhou Textiles Industry & Trade Holdings Ltd. (廣州紡織工貿企業集團有限公司) and Guangzhou Port Group Co., Ltd. (廣州港集團有限公司), which are directly or indirectly wholly-owned by Guangzhou Municipal People's Government, and in the shares held by Guangzhou Development Zone Industrial Development Group Co., Ltd. (廣州開發區工業發展集團有限公司) and Guangzhou Yunpu Industrial Zone Baiyun Enterprises Development Company (廣州市雲埔工業區白雲實業發展總公司), which are controlled by Guangzhou Municipal People's Government.

(2) Guangzhou HongHe Investment Co., Ltd. is owned as to 90% by Zeng Weipeng, and Guangzhou HongHe Investment Co., Ltd. owns Guangzhou HongHui Investment Co., Ltd. Therefore, Zeng Weipeng is deemed to be interested in the 200,991,000 shares by virtue of the SFO.

(3) Liu Feng wholly owns Good Prospect Corporation Limited. Therefore, Liu Feng is deemed to be interested in the 294,530,203 shares by virtue of the SFO.

(4) Deng Geng wholly owns East Lake Technology Limited. Therefore, Deng Geng is deemed to be interested in the 294,554,000 shares by virtue of the SFO.

(5) Lei Manying wholly owns NICE CITY ENTERPRISE LIMITED. Therefore, Lei Manying is deemed to be interested in the 220,517,797 shares by virtue of the SFO.

(6) Guangzhou General Merchandise Group Co., Ltd. wholly owns Grandbuy International Trade (HK) Limited, which in turn wholly owns Lead Straight Limited. Therefore, Guangzhou General Merchandise Group Co., Ltd. and Grandbuy International Trade (HK) Limited Co., Ltd. are deemed to be interested in the 195,229,000 shares by virtue of the SFO.

(7) Guangzhou Finance Holdings (HK) Co., Ltd. is owned as to 62.49% by Guangzhou Finance Holdings Group Co., Ltd., and Guang Rong Finance Company Limited is wholly owned by Guangzhou Finance Holdings (HK) Co., Ltd.. Therefore, Guangzhou Finance Holdings Group Co., Ltd. and Guangzhou Finance Holdings (HK) Co., Ltd. are deemed to be interested in the 104,347,000 shares by virtue of the SFO.

Save as disclosed above, the Bank was not aware of any other person (other than the directors, supervisors and the chief executive of the Bank) having any interests or short positions in the shares or underlying shares of the Bank as at 31 December 2018 which should be recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO.

(V) MAJOR SHAREHOLDERS

As at the end of the Reporting Period, there were no legal person shareholders holding 5% or more of the total share capital of the Bank, nor were there any other natural persons (employees or non-employees) holding 5% or more of the total share capital of the Bank. Guangzhou Municipal People's Government indirectly held 18.22% of shares of the Bank through 13 legal person shareholders which are under its control, representing 1,786,589,712 shares;

Guangzhou Finance Holdings Group Co., Ltd. (廣州金融控股集團有限公司), Guangzhou Chimelong Group Co., Ltd. (廣州長隆集團有限公司), Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司), Beijing Tianyou Investment Co., Ltd. (北京天佑投資有限公司), Guangzhou Haojin Motorcycle Co., Ltd. (廣州豪進摩托車股份有限公司) and Guangdong Zhujiang Roads & Bridges Investment Co., Ltd. (廣東珠江公路橋梁投資有限公司) delegated Li Fangjin, Su Zhigang, Shao Jianming, Zhang Yongming, Liu Guojie and Zhu Kelin as directors of the Bank, respectively; and Guangzhou Vanlead Group Co., Ltd. (廣州萬力集團有限公司) and Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司) delegated Huang Yong and Zhang Dalin as supervisors of the Bank, respectively. The above companies are major shareholders of the Bank.

As of 31 December 2018, the pledge proportion of Guangdong Zhujiang Roads & Bridges Investment Co., Ltd. (廣東珠江公路橋梁投資有限公司) and Guangzhou Fengle Fuel Co., Ltd. (廣州市豐樂燃料有限公司) as the Bank's major shareholders was more than 50%, respectively.

IV. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN THE COMPANY

As of 31 December 2018, based on the information available to the Bank and as far as the directors are aware, the interests and short positions of the directors, supervisors and chief executives of the Bank in the shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including the interests or short positions which he/she was deemed or taken to have under such provisions of the SFO), or the interests or short positions which have to be recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Directors', supervisors' and chief executives' interests in the Bank							
Name	Capacity	Nature of Interest	Class of shares	Long/short position	Number of shares held directly or indirectly (Share)	Approximate percentage of interest in the Bank	Approximate percentage of the relevant class of shares of the Bank
Wang Jikang	Director	Beneficial owner	Domestic Shares	Long	500,000	0.005%	0.006%
Yi Xuefei	Director	Beneficial owner	Domestic Shares	Long	500,000	0.005%	0.006%
Su Zhigang	Director	Interest of a controlled corporation(1)	Domestic Shares	Long	60,020,000	0.612%	0.751%
Zhu Kelin	Director	Interest of spouse	Domestic Shares	Long	1,201,000	0.012%	0.015%
Shao Jianming	Director	Beneficial owner/	Domestic Shares	Long	405,800	0.004%	0.005%
		Interest of a controlled corporation(2)	Domestic Shares	Long	14,060,000	0.143%	0.176%
Zhang Yongming	Director	Beneficial owner/	Domestic Shares	Long	11,067,400	0.113%	0.139%
		Interest of a controlled corporation(3)	Domestic Shares	Long	49,010,000	0.500%	0.689%
Liu Guojie	Director	Interest of a controlled corporation(4)	Domestic Shares	Long	20,000,000	0.204%	0.250%
Zhang Dalin	Supervisor	Beneficial owner/	Domestic Shares	Long	1,201,000	0.012%	0.015%
		Interest of a controlled corporation(5)	Domestic Shares	Long	5,000,000	0.051%	0.063%
Mao Yunshi	Supervisor	Interest of spouse	Domestic Shares	Long	1,201,000	0.012%	0.015%
Shao Baohua	Supervisor	Beneficial owner/	Domestic Shares	Long	1,201,000	0.012%	0.015%
		Interest of spouse/	Domestic Shares	Long	2,407,000	0.025%	0.030%
		Interest of a controlled corporation(6)	Domestic Shares	Long	42,010,000	0.428%	0.526%
Lai Jiaxiong	Supervisor	Beneficial owner	Domestic Shares	Long	452,224	0.005%	0.006%

Notes:

(1) These shares were held by Guangzhou Chimelong Group Co., Ltd., which was owned as to 87.14% by Su Zhigang. Therefore, by virtue of the SFO, Su Zhigang, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Chimelong Group Co., Ltd.

(2) These shares were held by Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司), which was owned as to 65% by Shao Jianming. Therefore, by virtue of the SFO, Shao Jianming, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司).

(3) These shares were held by Beijing Tianyou Investment Co., Ltd.（北京天佑投資有限公司）, which was owned as to 50% by Zhang Yongming. Therefore, by virtue of the SFO, Zhang Yongming, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Beijing Tianyou Investment Co., Ltd.（北京天佑投資有限公司）.

(4) These shares were held by Guangzhou Haojin Motorcycle Co., Ltd.（廣州豪進摩托車股份有限公司）, which was owned as to 99% by Liu Guojie. Therefore, by virtue of the SFO, Liu Guojie, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Haojin Motorcycle Co., Ltd.（廣州豪進摩托車股份有限公司）.

(5) These shares were held by Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司), which was owned as to 84% by Zhang Dalin. Therefore, by virtue of the SFO, Zhang Dalin, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Fengle Fuel Co., Ltd. (廣州豐樂燃料有限公司).

(6) These shares were held by Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司), which was owned as to 45.4% by Shao Baohua. Therefore, by virtue of the SFO, Shao Baohua, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司).

Directors', supervisors' and chief executives' interests in the associated corporations of the Bank						
Name	Capacity	Name of associated corporation	Nature of interest	Long/short position	Number of shares held directly or indirectly (Share)	Approximate percentage of interest in the associated corporations
Shao Jianming	Director	Heshan Zhujiang County Bank Co., Ltd.. (鶴山珠江村鎮銀行股份有限公司)	Interest of a controlled corporation(7)	Long	15,000,000	10.00%
Shao Baohua	Supervisor	Heshan Zhujiang County Bank Co., Ltd.. (鶴山珠江村鎮銀行股份有限公司)	Interest of a controlled corporation(8)	Long	6,500,000	4.33%

Notes:

(7) Heshan Zhujiang County Bank Co., Ltd. (鶴山珠江村鎮銀行股份有限公司) was owned as to 10.00% by Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司), which was owned as to 65% by Shao Jianming. Therefore, by virtue of the SFO, Shao Jianming, a director of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Haiyin Industrial Group Co., Ltd. (廣州海印實業集團有限公司).

(8) Heshan Zhujiang County Bank Co., Ltd. (鶴山珠江村鎮銀行股份有限公司) was owned as to 4.33% by Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司), which was owned as to 45.4% by Shao Baohua. Therefore, by virtue of the SFO, Shao Baohua, a supervisor of the Bank, is deemed or taken to be interested in all the shares held by him in Guangzhou Huadu Huanyang Commerce and Trade Co., Ltd. (廣州市花都環洋商貿有限公司).

Save as disclosed above, as at 31 December 2018, none of the directors, supervisors and chief executives of the Bank had any interests or short positions in any shares, underlying shares or debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept by the Bank pursuant to Section 352 of the SFO, or otherwise have to be notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

V. DIVIDENDS

Upon the approval of the 2017 annual general meeting of the Bank, on 13 July 2018, the Bank distributed the 2017 final dividends to holders of Domestic Shares and holders of H Shares whose names appeared on the register of members of the Bank as of 14 June 2018. Such dividends were paid in cash; dividends to holders of Domestic Shares were paid in RMB, and the dividend per share was RMB0.20 (tax included), while dividends to holders of H Shares were paid in Hong Kong dollars, and the dividend per share was HK$0.24503 (tax included).

I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Directors

Name	Gender	Month and Year of Birth	Position in the Bank	Date of Appointment[1]	Total amount of remuneration before tax received from the Bank during the Reporting Period (RMB)[2]
Wang Jikang	Male	1961.9	Secretary of the Party Committee and Chairman	2013.8	920,879.20
Yi Xuefei	Male	1967.11	Deputy Secretary of the Party Committee, Vice Chairman and President	2014.5	920,879.20
Liu Shaobo	Male	1960.9	Independent Director	2014.5	254,761.90
Liu Heng	Male	1964.1	Independent Director	2014.5	231,162.46
Song Guanghui	Male	1961.3	Independent Director	2014.5	394,467.78
Zheng Jianbiao	Male	1964.4	Independent Director	2014.5	201,680.67
Yung Hin Man Raymond	Male	1960.5	Independent Director	2016.9	231,232.49
Li Fangjin[3]	Male	1962.1	Shareholders' Director	2014.5	92,857.14
Su Zhigang	Male	1958.6	Shareholders' Director	2009.12	63,235.29
Shao Jianming	Male	1963.5	Shareholders' Director	2009.12	92,997.19
Zhang Yongming	Male	1972.3	Shareholders' Director	2014.5	92,857.14
Liu Guojie	Male	1970.12	Shareholders' Director	2016.9	69,187.67
Zhu Kelin	Male	1962.10	Shareholders' Director	2009.12	104,761.90

(II) Supervisors

Name	Gender	Month and Year of Birth	Position in the Bank	Date of Appointment[1]	Total amount of remuneration before tax received from the Bank during the Reporting Period (RMB)[2]
Wang Xigui	Female	1966.8	Chairman of the Board of Supervisors, Employee Supervisor	2018.12	/
He Heng	Female	1970.4	Employee Supervisor	2016.8	1,311,307.72
Lai Jiaxiong	Male	1975.10	Employee Supervisor	2018.12	1,387,826.06
Mao Yunshi	Male	1945.12	External Supervisor	2016.9	140,756.30
Chen Dan	Male	1966.10	External Supervisor	2016.9	81,092.43
Shao Baohua	Male	1969.5	External Supervisor	2014.5	92,997.19
Huang Yong	Male	1964.11	Supervisor	2014.5	98,879.55
Zhang Dalin	Male	1978.2	Supervisor	2014.5	87,044.81

(III) Senior Management

Name	Gender	Month and Year of Birth	Position in the Bank	Date of Appointment[1]	Total amount of remuneration before tax received from the Bank during the Reporting Period (RMB)[2]
Yi Xuefei	Male	1967.11	Deputy Secretary of the Party Committee, Vice Chairman and President	2014.05	920,879.20
Zuo Yi	Male	1963.11	Deputy Secretary of the Party Committee, Secretary to Commission for Discipline Inspection	2016.04	825,160.00
Chen Jianming	Male	1961.11	Vice President	2009.12	849,160.00
Zhang Dong	Male	1970.7	Vice President	2016.12	835,069.60
Peng Zhijun	Male	1968.11	Vice President	2017.08	834,069.60
Chen Linjun	Female	1972.11	Business director	2014.01	2,418,699.36
Chen Qianhong	Male	1973.12	Business director	2014.01	2,063,240.00
Yang Xuan	Female	1976.12	Business director	2015.08	2,391,480.00

Notes:

(1) The time of appointment of directors and supervisors is the time of consideration and approval by the shareholders' meeting or the meeting of the employee representatives; and the time of appointment of senior management is the time of approval by the regulatory authorities. The term of office of the second session of directors and supervisors of the Bank expired on 20 May 2017. As, among others, the nomination process for some of the shareholders' directors has not been completed and the candidates for some of the directors were still in the process of selection, the Bank was not able to complete the change of office before the expiration of the second session of Board of Directors and Board of Supervisors. The current Directors and Supervisors shall continue to perform their respective responsibilities until the change of office is completed.

(2) The Bank provides remuneration for directors, supervisors and senior management personnel based on the Remuneration Management Measures for Directors and Supervisors of Guangzhou Rural Commercial Bank Co., Ltd. (《廣州農村商業銀行股份有限公司董事、監事薪酬管理辦法》), Measures for the Assessment of Performance of Directors of Guangzhou Rural Commercial Bank Co., Ltd. (Trial) (《廣州農村商業銀行股份有限公司董事履職評價辦法(試行)》) and Measures for the Assessment of Performance of Supervisors of Guangzhou Rural Commercial Bank Co., Ltd. (Trial) (《廣州農村商業銀行股份有限公司監事履職評價辦法(試行)》).

Since the final remuneration for 2018 of Wang Jikang, Yi Xuefei, Zuo Yi, Chen Jianming, Zhang Dong and Peng Zhijun shall be assessed and determined by Guangzhou SASAC, which has not been finalized for 2018 at present, the above remuneration was estimated based on the annual remuneration of 2017 (excluding incentive during term of office). For appointments less than one year, the remuneration was estimated based on the monthly salary.

Total amount of remuneration before tax included fixed salary, performance-based salary (including unallocated deferred performance) and welfare and allowances for 2018, but excluded social security premium, provident fund and annuity of the entities..

(3) Former name: Li Fangjin (李房金).

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

In 2018, Mr. Zheng Shuping resigned from the positions as non-executive director, member of the Strategy and Investment Committee (Sannong Committee) and member of the Consumer Protection Committee of the Bank due to his personal reason.

In 2018, Mr. Liu Wensheng resigned from the positions as chairman of the Board of Supervisors and employee supervisor of the Bank due to change of work allocation; Mr. Xiao Shilian resigned from the positions as employee supervisor and member of the Audit and Supervision Committee under the Board of Supervisors due to his personal reasons. Mr. Lu Lian resigned from the positions as shareholder supervisor and member of the Nomination Committee due to his personal reasons. Ms. Wang Xigui was by-elected as employee supervisor and chairman of the second session of the Bank's Board of Supervisors; and Mr. Lai Jiaxiong was by-elected as employee supervisor of the second session of the Bank's Board of Supervisors.

In 2018, Mr. Chen Wu resigned from the position as vice president of the Bank due to his personal reasons; and Mr. Wu Haifeng resigned from the position as assistant to president of the Bank due to his personal reasons. In December 2018, Ms. Zheng Ying was appointed as the secretary of the Board of Directors, whose qualification is subject to approval by the regulatory authority. In February 2019, Mr. Cai Huiran was appointed as the chief information officer of the Bank.

III. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Directors

Wang Jikang, male, was born in September 1961. He graduated from Sun Yat-sen University and obtained a doctor's degree in business administration. He obtained the qualification of senior economist. He now serves as Secretary of the Party Committee and Chairman of Guangzhou Rural Commercial Bank, executive vice president of Guangdong General Chamber of Commerce and he is awarded the title of "Guangzhou Distinguished Expert". He once served as teacher of Henan University of Finance and Economics and Consumption Economy Research Institute of Xiangtan University; director of editorial office of South China Journal of Economics, assistant researcher of Institute of Economics with Guangdong Provincial Academy of Social Sciences; principal staff member, deputy chief of Guangzhou Branch of People's Bank of China; Assistant to President and Vice President of Guangzhou Commercial Bank; deputy secretary of the Party Committee, vice board chairman and director of Guangzhou Rural Credit Cooperative Union; deputy secretary of the Party Committee, Vice Chairman and President of Guangzhou Rural Commercial Bank, chairman of Zhujiang Financial Leasing Co., Ltd., vice president of Guangdong Economic Institute and a member of the 14th Congress of Guangzhou Municipal People's Congress.

Yi Xuefei, male, was born in November 1967. He graduated from Jiangxi University of Finance and Economics and obtained a master's degree in international economics and trade. He also obtained a master's degree in executive business administration from Sun Yat-sen University and is qualified as an intermediate economist. He now serves as Deputy Secretary of the Party Committee, Vice Chairman and President of Guangzhou Rural Commercial Bank. He once served as staff of Jiangxi Sanbo Electric Machinery Group, staff member of accounting division of Second Sub-branch of Guangzhou Branch of Construction Bank, staff member, principal staff member, deputy section chief, section chief, assistant to director, deputy director and deputy chief of Guangzhou Branch of Construction Bank, vice president of Foshan Branch of Construction Bank and concurrently president of Nanhai Sub-branch, deputy secretary of the Party Committee and vice president of Dongguan Branch of Construction Bank, deputy general manager (in charge of overall works) and general manager of financial planning department of Guangdong Branch of Construction Bank, director of assets and liabilities management department and director of restructuring office of Guangdong Branch of Construction Bank, secretary of the Party Committee and president of Shantou Branch of Construction Bank, member of the Party Committee and deputy director of Guangzhou Rural Credit Cooperative Union, member of the Party Committee and Vice President of Guangzhou Rural Commercial Bank.

Liu Shaobo, male, was born in September 1960. He graduated from Sun Yat-sen University and obtained a doctor's degree in management. He now serves as professor and doctoral tutor of Department of Finance of School of Economics and director of the Institute of Finance of Jinan University, an Independent Director of Guangzhou Rural Commercial Bank, decision-making consultant expert of Guangzhou Municipal People's Government, vice president of Guangdong Economic Association and vice president of Tertiary Industry Research Association of Guangdong.

Liu Heng, male, was born in January 1964. He is a Doctor of Economics with a Postdoctoral Degree in Law. He now serves a professor and a doctoral tutor of Law School of Sun Yat-sen University, Director of the Institute of Administrative Law of Sun Yat-sen University, and an Independent Director of Guangzhou Rural Commercial Bank.

Song Guanghui, male, was born in March 1961. He graduated from Renmin University of China and obtained a doctor's degree in statistics. He now serves as professor and doctoral tutor of School of Business Administration of South China University of Technology, and an Independent Director of Guangzhou Rural Commercial Bank. He once served as teaching assistant, tutor, associate professor and acting director of foreign affairs office of Henan University of Economics and Finance, vice general manager of investment banking department and general manager of research and development department of China Southern Securities Co., Ltd. (Guangzhou Branch).

Zheng Jianbiao, male, was born in April 1964. He graduated from Research Institute for Fiscal Science of the MOF and obtained a master's degree in economics. He now serves as a partner of Partner Management Committee of Grant Thornton China, and an Independent Director of Guangzhou Rural Commercial Bank. He once served as a cadre of the Beijing Municipal Bureau of Finance, a manager of Shenzhen Shekou Zhonghua Certified Public Accountants, a deputy director of Beijing Jingdu Public Accounting Firm, an assessment expert for the First Corporate Annuity Management Agency of Ministry of Labor and Social Security, an expert member of the 9th Stock Issuance Review Committee of CSRC and a member of the 1st to 3rd Sessions of Expert Consultancy Committee of Merger and Restructuring of Listed Companies of CSRC.

Yung Hin Man Raymond, male, was born in May 1960, a Hong Kong permanent resident. He graduated from The Hong Kong Polytechnic University and obtained a bachelor's degree in accounting. He now serves as a chief executive officer of L.R. Capital Group, an Independent Director of Guangzhou Rural Commercial Bank and an independent director of Citibank Hong Kong. He once served as a senior manager and a managing partner of finance of Arthur Andersen, an accounting and internal control special advisor of the Office of the Commissioner of Banking of Hong Kong (currently known as Hong Kong Monetary Authority), a managing partner of China financial services group of PricewaterhouseCoopers and a board member in regions of China, Hong Kong, Singapore and Taiwan.

Li Fangjin, male, was born in January 1962. He graduated from Capital University of Economics and Business and obtained a master's degree in finance. He now serves as secretary of the Party Committee and chairman of Guangzhou Finance Holdings Group Co., Ltd., a director of Guangzhou Rural Commercial Bank, chairman of Wanlian Securities Co., Ltd., chairman of Guangdong Equity Exchange Company Limited (廣東股權交易中心股份有限公司) and president of Guangzhou Finance Association. He once served as political counselor, secretary of student work, acting deputy secretary of the General Party Committee, deputy secretary of the General Party Committee and commissary in charge of organization, secretary of the General Party Committee (Leading roles of divisions or equivalents) and department deputy director of South China Normal University, minister of international department of Guangdong Securities Regulatory Commission, minister of international department, head and secretary of the Party Committee Branch of the first office of agency supervision, head and secretary of the Party Committee Branch of the first office of case investigation of Guangzhou Securities Regulatory Office of CSRC, director of Guangdong Finance Institute, chairman of Guangzhou Guangyong State-owned Assets Management Co., Ltd., member of the Party Committee, general manager and vice chairman of Guangzhou Financial Holdings Group Co., Ltd., vice chairman of Bank of Guangzhou Co., Ltd., chairman of Legend Financial Leasing Co., Ltd., chairman of Guangzhou Finance Holdings Capital Management Co., Ltd., chairman of Guangdong Green Finance Investment Holding Group Co., Ltd., chairman of Guangzhou Equity Exchange Limited (廣州股權交易中心有限公司), chairman of Guangzhou Legend Reloan Co., Ltd., independent director of Guangzhou Automobile Group Co., Ltd. and supervisor of E Fund Funds Management Co., Ltd..

Su Zhigang, male, was born in June 1958. He now serves as chairman of Guangdong Chimelong Group Co., Ltd., Director of Guangzhou Rural Commercial Bank, member of National Committee of the Political Consultative Conference, vice chairman of All-China Federation of Industry and Commerce ("ACFIC") (全國工商聯(中國民間商會)) and chairman of Guangdong Federation of Industry and Commerce. He once served as the vice chairman of the 11th Session of ACFIC, a member of the 9th and the 10th Congress of National People's Congress, vice chairman of the 10th and the 11th Session of Chinese People's Political Consultative Conference Guangzhou Committee and president of the 12th and the 13th Session of Guangzhou Federation of Industry and Commerce Executive Committee. He founded Chimelong Xiangjiang Seafood Restaurant, Chimelong Xiangjiang Hotel, Guangzhou Chimelong Safari Park, Guangzhou Chimelong Group, Chimelong Night Animal World, Guangzhou Chimelong Hotel, Guangzhou Chimelong Happy World, Guangzhou Chimelong Water Park, Zhuhai Chimelong Investment & Development Co., Ltd., Zhuhai Hengqin Chimelong Ocean Kingdom, Zhuhai Hengqin Chimelong Hengqin Bay Hotel, Zhuhai Hengqin Chimelong Circus City, Zhuhai Hengqin Chimelong Penguin Hotel, Circus Hotel, Qingyuan Chimelong Investment Co., Ltd., Qingyuan Chimelong International Forest Tourist Resort (under construction) and Guangzhou Chimelong Panda Hotel.

Shao Jianming, male, was born in May 1963. He graduated from Grenoble School of Management (France) and obtained a doctor's degree. He now serves as chairman of Guangdong Highsun Group Co., Ltd., chairman of Guangzhou Haiyin Industrial Group Co., Ltd., Director of Guangzhou Rural Commercial Bank, member of the 13th Congress of Guangdong Provincial People's Congress, member of the Standing Committee of the 15th Congress of Guangzhou Municipal People's Congress, vice chairman of the 15th Session of Chinese People's Political Consultative Conference Guangzhou Yuexiu District Committee, vice chairman of Guangzhou Federation of Industry and Commerce Executive Committee, and president of Guangdong Chamber of Private Enterprise. He once served as deputy manager of Guangzhou Baijia Daily Necessities Co., Ltd., manager of Highsun Wool Fabric Mall, deputy manager of Guanlv Fashion Company and chairman and general manager of Guangzhou Haiyin Business Development Co., Ltd..

Zhang Yongming, male, was born in March 1972. He graduated from China Europe International Business School and obtained a master's degree in business administration. He now serves as chairman of Beijing Tianyou Investment Co., Ltd., chairman of Aotecar New Energy Technology Co., Ltd, chairman of Nanjing Aotecar New Energy Technology Co., Ltd., executive director of Nanjing Aotecar Xiangyun Refrigerator Co., Ltd., director of YSY (Shanghai) Pharmaceutical Co., Ltd., chairman of Guanhao Biotech Co., Ltd., Director of Guangzhou Rural Commercial Bank, executive director and general manager of Jiangsu Tianyou Jin'gan Investment Co., Ltd., executive director and manager of Beijing Changjiang Xingye Assets Management Co., Ltd., executive partner delegate of Beijing Century Tianfu Venture Capital Investment Center (Limited Partnership), chairman of Wuhan Shiji Jinyuan Pawn Co., Ltd., executive director and general manager of Tibet Tianyou Investment Co., Ltd., executive director and general manager of Tibet Xinyu Investment Co., Ltd. and executive director and general manager of Tibet Aotecar Investment Co., Ltd.. He once served as head of Beijing Xingjunshi Trading Co., Ltd., deputy general manager of Beijing Oriental Yongjia Financial Consultant Co., Ltd. and chairman of Beijing Kaiming Zhida Technology Co., Ltd.

Liu Guojie, male, was born in December 1970. He graduated from Guangdong Academy of Social Sciences and obtained a on-job postgraduate degree in economic management. He now serves as chairman and president of Guangzhou Haojin Group Co., Ltd., chairman of Guangzhou Haojin Motorcycle Co., Ltd., chairman of Guangzhou Zengcheng Xinyue Small Loan Co., Ltd. and Director of Guangzhou Rural Commercial Bank. He once served as chairman and general manager of Zengcheng Haojin Trading Co., Ltd..

Zhu Kelin, male, was born in October 1962. He graduated from Western Sydney University (Australia) and obtained a master's degree in business administration. He now serves as Director of Guangzhou Rural Commercial Bank. He once served as director of GF Securities Co., Ltd., director of Pearl River Life Insurance Co., Ltd., vice chairman and chairman of Guangdong Pearl River Investment Holdings Group Co., Ltd and chairman of Guangdong Pearl River Investment Co., Ltd..

(II) Supervisors

Wang Xigui, female, was born in August 1966. She graduated from Zhongnan University of Finance and Economics and obtained a bachelor's degree in finance and the qualification of accountant. She now serves as employee supervisor and chairman of the Board of Supervisors of Guangzhou Rural Commercial Bank. She once served as teacher of Hubei School of Finance of Zhongnan University of Finance and Economics, clerk of the finance division of the freight insurance department, vice section chief, section chief and assistant to chief director of the accounting division of the Guangzhou Branch of PICC, deputy general manager of the finance department, deputy general manager (responsible for the operations) and general manager of the information technology department/channel management department (now known as the information technology department/sales management department) of Guangzhou Branch of PICC Property and Casualty Company Limited, researcher of the accounting department and the general office of the Bureau of Finance of Guangzhou, and chairman of the board of supervisors of Guangzhou City Construction Investment Group and Guangzhou Water Investment Group assigned by Guangzhou SASAC.

He Heng, female, was born in April 1970. She graduated from Hunan Institute of Finance and Economics and obtained a master's degree in economics and the qualification of economist. She now serves as employee supervisor and general manager of rural financial restructuring office of Guangzhou Rural Commercial Bank. She once served as teacher of information management department of Xiangtan University, staff member and deputy principal staff member of operation supervision division of PBOC Guangzhou Branch, principal staff member of foreign bank and other financial institutions supervision department of PBOC Guangzhou Branch, principal staff member, assistant consultant and deputy chief of policy and regulation section, deputy chief of business innovation supervision and cooperation section (responsible for the overall works) of CBRC Guangdong Office, deputy general manager of risk management department and credit management department (secondment position) of Guangdong Branch of Industrial and Commercial Bank of China, assistant to president of Zhujiang Financial Leasing Co., Ltd., general manager of performance management department and chief senior manager of investment and institution management department of Guangzhou Rural Commercial Bank.

Lai Jiaxiong, male, was born in October 1975. He graduated from Guangdong Business School (廣東商學院) and obtained a master's degree in laws. He now serves as employee supervisor and general manager of the Compliance and Legal Affairs Department (Consumer Rights Protection Center) of Guangzhou Rural Commercial Bank. He once served as clerk of the planning and credit department, section-level member of the loan approval committee and deputy general manager of the loan approval department of Guangzhou Rural Credit Cooperative Union, deputy director of Huangpu Credit Cooperative (黃埔信用社), chairman of the president's office of Huixian Zhujiang Rural Bank, deputy general manager of the credit approval department, chief senior manager of the rural banking division (institutional development department), chief senior manager of the risk management department, general manager of the credit management center and deputy general manager of the compliance and risk management department and deputy general manager of the compliance and legal affairs department of Guangzhou Rural Commercial Bank.

Mao Yunshi, male, was born in December 1945. He obtained a doctor's degree in world economics from Wuhan University and a master's degree in business administration (MBA) from Catholic University of Leuven (Belgium). He now serves as professor and doctoral tutor of School of Management of Sun Yat-sen University and director of Enterprise and Market Research Center of Sun Yat-sen University, DBA tutor of Grenoble Graduate School of Business, independent director of Guangxi Beibu Gulf Bank, supervisor of Guangzhou Rural Commercial Bank, external director of Guangzhou Construction Group, external director of Foshan Public Utilities Holding Co., Ltd., editor of Journal of Management Science and Academic Research. He once served as associate professor of department of economics and management, director of the teaching and research office, department deputy director, professor and deputy dean of the School of Management of Wuhan University, dean of the School of Management of Sun Yat-sen University, member of the Guangdong Provincial Degree Committee, member of the Discipline Review Group on Business Administration of Academic Degrees Committee of the State Council, member of Discipline Review Group on Management of National Natural Science Foundation of China, member of the Standing Committee of the Guangdong Provincial People's Political Consultative Conference, and Counsellor of Guangdong Provincial People's Government.

Chen Dan, male, was born in October 1966. He graduated from National University of Singapore and obtained a master's degree in business administration. He now serves as chairman of Guangdong Evergreen Conglomerate Co., Ltd., chairman of Guangdong Evergreen Feed Industry Co., Ltd., honorary president of Guangdong Provincial Chamber of Commerce, vice chairman of the 13th Session of Chinese People's Political Consultative Conference Zhanjiang Committee and Supervisor of Guangzhou Rural Commercial Bank. He once served as member of the 10th, 11th and 12th Congress of National People's Congress, member of the Standing Committee of the 11th and 12th Congress of Guangdong Provincial People's Congress, standing member of the 10th and 11th Session of All-China Federation of Industry and Commerce, chairman of the 10th and 11th Session of Provincial Federation of Industry and Commerce (省工商聯), member of the 9th Session of Chinese People's Political Consultative Conference Zhanjiang Committee and vice chairman of the 10th, 11th and 12th Session of Chinese People's Political Consultative Conference Zhanjiang Committee.

Shao Baohua, male, was born in May 1969. He graduated from Jinan University and obtained a doctor's degree in international relations. He now serves as chairman of Guangzhou College of Technology and Business, supervisor of Guangzhou Rural Commercial Bank, chairman of Guangzhou Huadu Huanyang Trading Co., Ltd., vice president and council member of the Guangzhou Branch of the Alumni Association of School of International Studies, Peking University. He once served as teacher of Huadu Xinhua Songbai Primary School of Guangzhou, executive director of Guangzhou Huadu Huanyang Trading Co., Ltd., principal of Guangzhou Huadu Huanyang School of Commerce, member of the 9th Session of Chinese People's Political Consultative Conference Guangzhou Huadu District Committee, member of the 15th Congress of People's Congress of Guangzhou Huadu District, member of the standing committee of Guangzhou Youth Federation, and member of the 14th Congress of People's Congress of Guangzhou.

Huang Yong, male, was born in November 1964. He graduated from Beijing Jiaotong University and obtained a doctor's degree in traffic and transportation planning and management. He now serves as deputy secretary of the Party Committee, vice chairman and general manager of Guangzhou Vanlead Group Co., Ltd. and supervisor of Guangzhou Rural Commercial Bank. He once served as cadre, deputy chief staff member and assistant to director of the safety and quality department of Guangzhou Port Authority, assistant to general manager of Hainan Port Group Corporation, secretary of the general Party branch's committee, deputy general manager (responsible for administrative work) and general manager of Guangzhou Port Freight Corporation, manager and general manager of Guangzhou Port Xinsha Stevedoring Co., Ltd., assistant to general manager and deputy general manager of Guangzhou Port Group Co., Ltd., deputy secretary of the Party Committee, vice chairman and general manager of Guangzhou International Group Co., Ltd..

Zhang Dalin, male, was born in February 1978. He graduated from Preston University and obtained a doctor's degree in business administration. He now serves as chairman of Guangzhou Fengle Group Co., Ltd., member of the 13th Congress of Guangdong Provincial People's Congress, member of the 2nd Session of Chinese People's Political Consultative Conference Guangzhou Zengcheng District Committee, chairman of Industry and Commerce Federation (General Chamber of Commerce) of Zengcheng District of Guangzhou, honorary president of Fengle Business School and supervisor of Guangzhou Rural Commercial Bank. He once served as vice president of China Energy Association, deputy general manager of Guangdong Nanfeng Automobile Club Co., Ltd., executive director and general manager of Guangdong Zhengpeng Energy Technology Co., Ltd.

(III) SENIOR MANAGEMENT

Yi Xuefei, please refer to the director section of "III. Biographies of Directors, Supervisors and Senior Management" in this section.

Zuo Yi, male, was born in November 1963. He graduated from Military Economics Institute of Chinese People's Liberation Army and obtained the qualification of senior accountant. He now serves as Deputy Secretary of the Party Committee and Secretary of the Commission for Discipline Inspection of Guangzhou Rural Commercial Bank. He once served as deputy researcher of Commission for Discipline Inspection and Supervision Office of Guangzhou Municipal Bureau of Finance, deputy director (assistant division grade) of Guangzhou Municipal Discipline Inspection Committee of the Communist Party of China and anti-malpractice office of Guangzhou Municipal Supervision Bureau, deputy director (division grade) of Guangzhou Municipal Discipline Inspection Committee of the Communist Party of China and party honesty office and anti-malpractice office of Guangzhou Municipal Supervision Bureau, deputy director (division grade) and director (division grade) of Guangzhou Municipal Discipline Inspection Committee of the Communist Party of China and office for supervision of party and government morality of Guangzhou Municipal Supervision Bureau.

Chen Jianming, male, was born in November 1961. He graduated from China Central Radio and TV University and obtained a master's degree in executive business administration from Sun Yat-sen University and the qualification of economist. He now serves as Vice President of Guangzhou Rural Commercial Bank. He once served as deputy sector chief and sector chief of PBOC Panyu Sub-branch; chief (secondment position) of Panyu Urban Credit Union; vice president of PBOC Panyu Sub-branch and vice president of SAFE Panyu Sub-branch; deputy director of Guangzhou Panyu Rural Credit Cooperative; director of Guangzhou Panyu Rural Credit Cooperative; assistant to director of Guangzhou Rural Credit Cooperative Union and secretary of the Party Committee and director of Panyu Credit Cooperative; assistant to director of Guangzhou Rural Credit Cooperative Union and secretary of the Party Committee of Panyu Credit Cooperative; member of the Party Committee and deputy director of Guangzhou Rural Credit Cooperative Union.

Zhang Dong, male, was born in July 1970. He graduated from South China Agricultural University and obtained a doctor's degree and the qualification of senior economist. He now serves as Vice President of Guangzhou Rural Commercial Bank and chairman of Zhujiang Financial Leasing Co., Ltd.. He once served as staff member and deputy chief of Personnel Bureau of Dongshan District of Guangzhou, deputy chief, chief, assistant to general manager, deputy general manager and general manager of Human Resources Department (Party-Mass Supervision Department) of Guangzhou Branch of CITIC Bank, deputy director of personnel education division of Food and Drug Administration of Guangdong, deputy general manager (person-in-charge) of office of Guangzhou Rural Credit Cooperative Union, general manager of office and general manager of administration department and general manager of Human Resources Department (Party-Mass Supervision Department) of Guangzhou Rural Commercial Bank, chairman and secretary of the Party Committee of Xinyang Zhujiang County Bank, secretary of the commission for discipline inspection of Guangzhou Lingnan International Enterprise Group Co., Ltd. and chairman of the board of supervisors of Guangzhou Lingnan Group Holdings Company Limited.

Peng Zhijun, male, was born in November 1968. He graduated from Wuhan University and obtained a doctor's degree and the qualification of senior economist. He now serves as Vice President and chief risk officer of Guangzhou Rural Commercial Bank. He once served as deputy director of the Finance Department of Guangzhou Finance College; deputy director of Guangzhou Branch Office, vice president of Quzhuang Sub-branch and president of Shuiyin Sub-branch of Shenzhen Development Bank; deputy general manager of development and research department, general manager of office and deputy director (person-in-charge) of Zengcheng Credit Cooperative of Guangzhou Rural Credit Cooperative Union; president of Zengcheng Sub-branch and president of Conghua Sub-branch of Guangzhou Rural Commercial Bank; assistant to director (secondment position) of cooperation financial institution supervision department of CBRC.

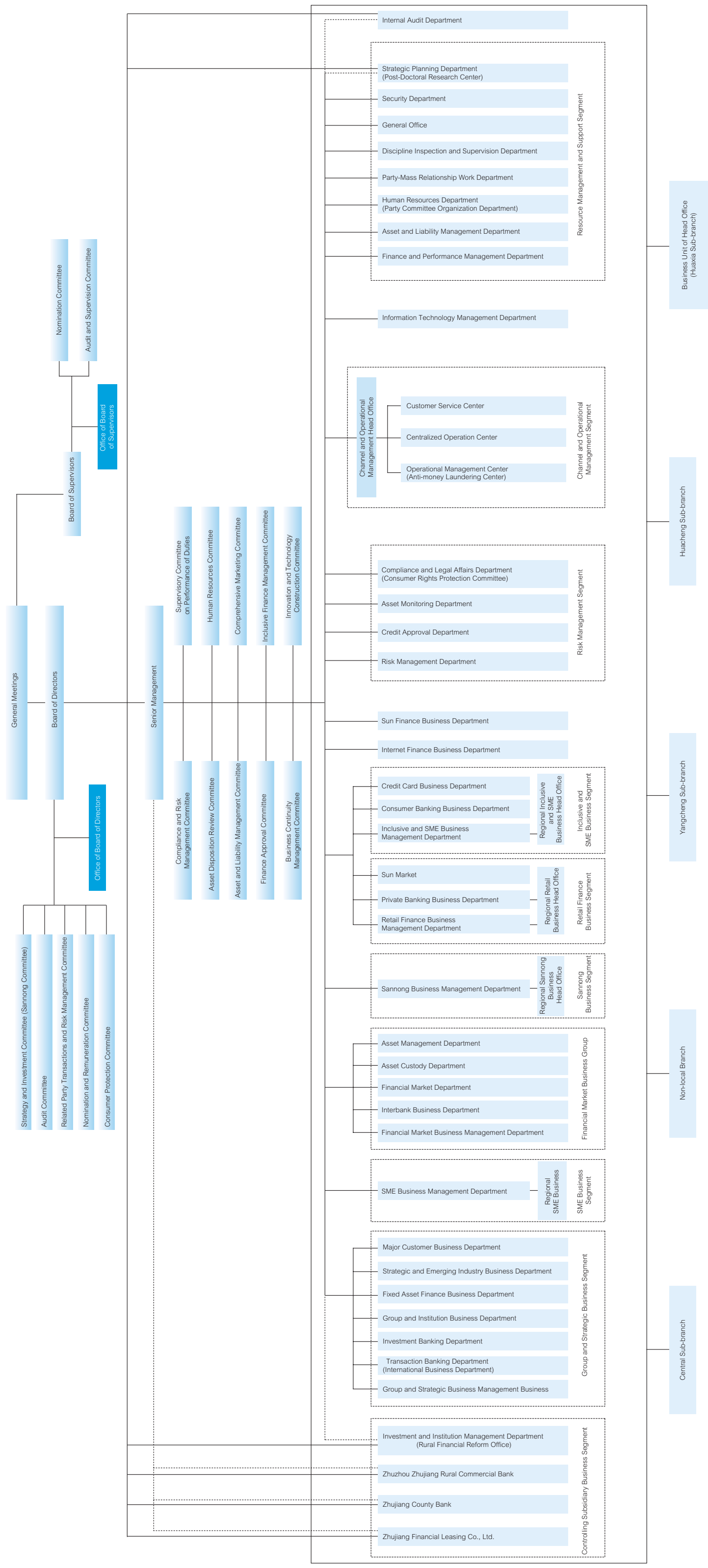
Chen Linjun, female, was born in November 1972. She graduated from China Central Radio and TV University at bachelor's level and obtained the qualification of assistant economist. She now serves as business director of Guangzhou Rural Commercial Bank. She once served as system administrator of computer management department and deputy section chief (responsible of the operations) of accounting department of Huangpu Sub-branch of Guangzhou Branch of China Construction Bank Corporation; assistant to general manager of business operations center of Guangdong Branch of China Construction Bank Corporation; assistant to general manager of personal banking department and general manager of e-banking center of Guangdong Branch of China Construction Bank Corporation; deputy general manager (responsible of the operations) of accounting management department of Guangzhou Rural Credit Cooperative Union; general manager of Operational Management Department of Guangzhou Rural Commercial Bank, general manager of E-banking Department and general manager of Operation management Department, person-in-charge of E-commerce and Process Bank Project Team, president of Retail Financial Business Group and general manager of Retail Financial Business Management Department of Guangzhou Rural Commercial Bank.

Chen Qianhong, male, was born in December 1973. He graduated from Peking University and obtained a master's degree and the qualification of senior economist. He now serves as business director of Guangzhou Rural Commercial Bank. He once served as staff member of office of Party Committee and fund manager of planning office of Henan Branch of Industrial and Commercial Bank of China; general manager of fund planning department of Zhengzhou Huaxin Sub-branch of Industrial and Commercial Bank of China; general manager of capital operation department of business department of Henan Branch of Industrial and Commercial Bank of China, general manager (assistant division grade) of risk management department of business department of Henan Branch of Industrial and Commercial Bank of China; president of Tianjin New Technology Industry Park Sub-branch of Bank of Communications; general manager of Fund Business Department, general manager of Financial Market Business Department (Investment Banking and Real Estate Business Management Department), and general manager of Asset Management Center, deputy general manager of Non-local Business Management Department, president of Financial Market Marketing Business Group and general manager of Financial Market Business Management Department of Guangzhou Rural Commercial Bank.

Yang Xuan, female, was born in December 1976. She graduated from Shanghai University of Finance and Economics and obtained a master's degree and the qualification of economist. She now serves as business director of Guangzhou Rural Commercial Bank, president of Sun Financial Business Department and president of Free Trade Zone Nansha Branch of Guangzhou Rural Commercial Bank; and chairman of board of supervisors of Zhujiang Financial Leasing Co., Ltd. She once served as credit staff of credit planning department, deputy manager of legal office, deputy manager of asset security department and manager of marketing department of operation center of Guangzhou Tianhe Rural Credit Cooperative Union; deputy general manager of corporate business department and general manager of compliance and risk department of Guangzhou Rural Credit Cooperative Union; general manager of Corporate Financial Department, general manager of International Business Department of Guangzhou Rural Commercial Bank and general manager of Corporate Financial Department of the Bank, deputy general manager of Guangzhou Region Business Management Department, vice president and executive president of Corporate Financial Management Department and general manager of Guangzhou Region Business Management Department.

CORPORATE GOVERNANCE REPORT

I. CORPORATE STRUCTURE



II. CORPORATE GOVERNANCE OVERVIEW

The Bank continued to improve the standardization of corporate governance to ensure that it meets the corporate governance standards of listed companies. This aims to safeguard the interests of stakeholders and enhance corporate value.

The Bank had strictly complied with the code provisions under the Corporate Governance Code as set out in Appendix 14 to the Hong Kong Listing Rules, and had also followed most of the recommended best practices contained therein. The Bank has also strictly complied with the relevant laws and regulations and the Hong Kong Listing Rules in respect of management of insider information. There was no significant difference between the corporate governance of the Bank and the Company Law as well as the relevant requirements of CSRC and the Hong Kong Stock Exchange.

To the best of knowledge of the directors of the Bank, there is no reasonable statistics indicating that the Bank was in violation of the Corporate Governance 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 Corporate Governance Code and the rising expectations of shareholders and investors.

III. GENERAL MEETING

The Bank convened two general meetings, one domestic shareholders class meeting and one H shareholders class meeting during 2018, namely, the 2017 Annual General Meeting and the 2018 First Extraordinary General Meeting of the Bank, the First Domestic Shareholders Class Meeting of 2018 and the First H Shareholders Class Meeting of 2018. The details are as follows:

On 31 May 2018, the Bank convened the 2017 Annual General Meeting, which mainly reviewed and passed nine resolutions, namely, the 2017 Work Report of the Board of Directors, the 2017 Work Report of the Board of Supervisors, the 2017 Annual Audit Report on Financial Statements, the 2017 Report on Final Accounts, the 2017 Profit Distribution Proposals, the 2017 Annual Report and the 2018 Financial Budgets. The convening of this General Meeting fulfilled the corresponding legal procedures in accordance with laws and regulations. During the Reporting Period, six of the then directors of the Bank, namely, Mr. Wang Jikang, executive director of the Bank, Mr. Liu Shaobo, Mr. Song Guanghui, Mr. Zheng Jianbiao and Mr. Yung Hin Man Raymond, independent non-executive directors of the Bank, and Mr. Zhang Yongming, non-executive director of the Bank, attended the 2017 Annual General Meeting.

On 6 September 2018, the Bank convened the 2018 First Extraordinary General Meeting, which mainly reviewed and passed 21 resolutions, including the amendments to the Articles of Association, the amendments to the Rules of Procedure for the General Meeting, the amendments to the Rules of Procedure for the Board of Directors, the amendments to the Rules of Procedure for the Board of Supervisors, the amendments to the Equity Management Measures, the issuance of A shares for listing and the issuance of offshore preference shares. The convening of this General Meeting fulfilled the corresponding legal procedures in accordance with laws and regulations. During the Reporting Period, seven of the then directors of the Bank, namely, Mr. Wang Jikang and Mr. Yi Xuefei, executive directors of the Bank; Mr. Liu Shaobo, Mr. Liu Heng and Mr. Song Guanghui, independent non-executive directors of the Bank; and Mr. Li Fangjin and Mr. Zhang Yongming, non-executive directors of the Bank, attended the 2018 First Extraordinary General Meeting.

On 6 September 2018, the Bank convened the First Domestic Shareholders Class Meeting of 2018, which mainly reviewed and passed nine resolutions, including the issuance of A shares for listing and the issuance of offshore preference shares. The convening of this class meeting fulfilled the corresponding legal procedures in accordance with laws and regulations. During the Reporting Period, seven of the then directors of the Bank, namely, Mr. Wang Jikang and Mr. Yi Xuefei, executive directors of the Bank; Mr. Liu Shaobo, Mr. Liu Heng and Mr. Song Guanghui, independent non-executive directors of the Bank; and Mr. Li Fangjin and Mr. Zhang Yongming, non-executive directors of the Bank, attended the First Domestic Shareholders Class Meeting of 2018.

On 6 September 2018, the Bank convened the First H Shareholders Class Meeting of 2018, which mainly reviewed and passed nine resolutions, including the issuance of A shares for listing and the issuance of offshore preference shares. The convening of this class meeting fulfilled the corresponding legal procedures in accordance with laws and regulations. During the Reporting Period, seven of the then directors of the Bank, namely, Mr. Wang Jikang and Mr. Yi Xuefei, executive directors of the Bank; Mr. Liu Shaobo, Mr. Liu Heng and Mr. Song Guanghui, independent non-executive directors of the Bank; and Mr. Li Fangjin and Mr. Zhang Yongming, non-executive directors of the Bank, attended the First H Shareholders Class Meeting of 2018.

IV. BOARD OF DIRECTORS

(I) Implementation of the resolutions of the General Meetings by the Board of Directors

During 2018, the Board of Directors strictly implemented the resolutions passed at the general meetings and class meetings and conscientiously implemented various proposals reviewed and passed at the general meetings and class meetings.

(II) Board Composition

As at the end of the Reporting Period, the Board of Directors comprised a total of 13 directors, including two executive directors, namely Mr. Wang Jikang (Chairman) and Mr. Yi Xuefei (President); six non-executive directors, namely Mr. Li Fangjin, Mr. Su Zhigang, Mr. Shao Jianming, Mr. Zhang Yongming, Mr. Liu Guojie and Mr. Zhu Kelin; and five independent non-executive directors, namely Mr. Liu Shaobo, Mr. Liu Heng, Mr. Song Guanghui, Mr. Zheng Jianbiao and Mr. Yung Hin Man Raymond.

Each term of office of a director of the Bank (including non-executive directors) is three years and he/she may serve consecutive terms if re-elected. Upon expiry of the office term of three years, an independent non-executive director shall be eligible for re-election and reappointment as independent non-executive director of the Bank. An independent non-executive director shall serve in the Bank for no more than a cumulative period of six years.

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

(III) Diversification policies of the Board of Directors

The Bank believes that a diversified Board of Directors will be beneficial to enhance the Bank's performance. The Bank considers the increasing diversification at the level of Board of Directors as a key factor in achieving sustainable development, supporting its achievement of strategic objectives and maintaining good corporate governance.

In setting the composition of the Board of Directors, the Bank will consider the diversification of members of the Board of Directors from various aspects, including but not limited to, gender, aspect and industry experience, skills, knowledge and educational background. All appointments to the Board of Directors shall follow the principle of meritocracy, taking into account objectively the benefits of diversification of members of the Board of Directors when considering the candidates.

Selection of candidate to the Board of Directors will be based on a series of diversified scope, including but not limited to, gender, aspect, industry experience, skills, knowledge and educational background.

The Nomination and Remuneration Committee will review the policy in due time to ensure its effectiveness in performance. The Nomination and Remuneration Committee will discuss any possible amendments needed, and offer the advice on amendments to the Board of Directors for its consideration and approval.

(IV) Changes of Board Members

For changes of the Directors, please refer to the section headed "Directors, Supervisors and Senior Management" of this annual report.

(V) Chairman and President

The positions of chairman and president of the Bank are held by separate persons in accordance with the requirements of Hong Kong Listing Rules. Mr. Wang Jikang, as the chairman of the Bank, performs the following duties: to preside over general meetings, and convene and preside over meetings of the Board of Directors; and to supervise and examine the implementation of resolutions of the Board of Directors, etc.. Mr. Yi Xuefei, as the president of the Bank, performs the following duties: to manage the business operation of the Bank; and to report to the Board of Directors, etc..

(VI) Operation of the Board of Directors

The Board of Directors convenes regular meetings, generally no fewer than four times a year; extraordinary meetings are convened if and when necessary. Board meetings may be convened by means of on-site conference or written resolutions. The agenda for board meetings is drafted upon regular consultation with each director. Board meeting papers and relevant materials are usually circulated to all directors and supervisors at least 14 days in advance of board meetings. All directors keep contact with the office of Board of Directors, to ensure compliance with board procedures and all applicable rules and regulations.

Detailed minutes of meetings of the Board of Directors are maintained and are available to all directors for their review and comments after the conclusion of such meeting. The finalized minutes of meetings of the Board of Directors will be sent to all directors as soon as possible. The minutes of meetings of the Board of Directors are kept according to the file management regulations of the Bank and are available for inspection by directors at any time.

A good communication and reporting mechanism has been established among the Board of Directors, directors and senior management of the Bank. The president and chief executives report regularly to and are supervised by the Board of Directors. Relevant members of senior management are invited to participate in meetings of the Board of Directors from time to time to provide explanations and answers to inquiries.

Directors can express their opinions freely at meetings of the Board of Directors, and major decisions are made after detailed discussions. A director shall abstain from discussion and voting at a meeting of the Board of Directors on any proposal in which he is materially interested, and shall not be counted in the quorum for such proposal.

The Board of Directors has set up an office as its working body, which is responsible for preparation of general meetings, meetings of the Board of Directors and meetings of the special committees under the Board of Directors, information disclosure and other routine matters.

(VII) Duties of the Board of Directors

The Board of Directors is responsible for formulating the corporate governance system and monitoring the Group's business and financial strategy decisions and performance and reporting to the shareholders at the general meeting. The Board of Directors has conferred the rights and duties of the Group's governance to the management. In addition, the Group has assigned the respective responsibilities to the Strategy and Investment Committee (Sannong Committee), Audit Committee, Related Party Transactions and Risk Management Committee, Nomination and Remuneration Committee, and Consumer Protection Committee. The details of the above committees are set out in this Report.

The Board of Directors is also responsible for performing corporate governance functions. During the year ended 31 December 2018, the Board of Directors has fulfilled its corporate governance functions as set out in Article D.3.1 of the Corporate Governance Code.

According to the Articles of Association, the Board of Directors assumes the ultimate responsibility for the Bank's operations and management and exercises the following duties and powers according to law:

- To convene shareholders' general meetings and report its work to the shareholders' general meetings;

- To implement the resolutions of the shareholders' general meetings;
- To formulate the development strategy of the Bank and its specific development strategies in green credit, financial innovation and protection of consumers' interests and supervise the implementation of the said strategies, and to decide on the business plans and investment plans of the Bank;
- To prepare the annual financial budgets and final accounts of the Bank;
- To prepare the venture capital distribution plan, profit distribution plan and the plan for making up the losses of the Bank;
- To formulate the capital planning and take ultimate responsibility for capital management, and formulate plans for increase or reduction of the registered capital, issue of corporate bonds or other securities and listing;
- To prepare plans for the Bank's material acquisitions and acquisitions for the Bank's shares, merger, division, dissolution or alteration of corporate form of the Bank;
- To approve, other than daily operation of the Bank, the external investments, purchase or disposal of assets, pledge of assets, external guarantees, entrustments of others to manage the Bank's funds or other assets of the Bank, except for material matters regulated in the Articles of Association, which shall be decided by the shareholders' general meeting;
- To approve material related party transactions of the Bank, unless otherwise regulated in the Articles of Association;
- To decide on the establishment of internal management structure of the Bank;
- As proposed by the Nomination and Remuneration Committee, to decide on the appointment, removal and remuneration of the President, the chief officer and the secretary to the Board of Directors based on the proposals of the Chairman; to decide on the appointment, removal and remuneration of the vice president, the assistant to the president, the business director and other senior management based on the proposals of the President;
- To formulate the basic management system of the Bank;
- To take the ultimate responsibility for specific risk management of the Bank such as the comprehensive risk management and compliant operation, liquidity risk management, reputation risk management and management of consolidated financial statements, and certain material responsibilities such as protection of consumers' interests;

- To develop risk management culture, formulate the comprehensive risk management policy of the Bank, formulate relevant risk management systems for risk tolerance, risk preference, internal control, reputation risk, financial innovation risk management and fraud risk management as the main contents of the risk management of the Bank;

- To prepare any amendment proposals to the Articles of Association;

- To be responsible for information disclosure of the Bank and take the ultimate responsibilities for the truthfulness, accuracy, completeness and timeliness of accounting and financial reports of the Bank;

- To determine the job responsibilities for any manager, including the President, the Vice President, the chief officer, the assistant to president, the secretary to the Board of Directors and the business directors;

- To monitor the performance of senior management and ensure their effective performance;

- To receive the work report from the President and inspect the work of the President;

- The Board of Directors shall establish a supervisory system for the management to formulate the code of conduct and terms of reference for the management and business officers and that the normative documents shall specifically require employees at all levels to report any potential conflict of interests in a timely manner, provide particular rules and establish corresponding measures;

- The Board of Directors shall establish a reporting system and require the senior management to report to the Board of Directors and Directors the operation and management issues of the Bank, and the reporting system shall cover provisions for the matters below;

- To evaluate and refine the corporate governance of the Bank on a regular basis;

- To protect the legitimate interests of depositors and other interested parties;

- To establish the mechanism for identification, verification and management of the conflict of interest between the Bank and shareholders, in particular Substantial Shareholders; and

- To exercise any other duties and power conferred by laws, regulations, regulatory requirements and the Articles of Association.

(VIII) Board Meetings

During the Reporting Period, the Bank convened 16 board meetings (including communication meetings) in total (including five on-site meetings and 11 communication meetings), at which 113 proposals were considered and approved on the matters mainly including the 2017 Annual Report and the 2018 Interim Report.

The list of directors participating in the meetings is as follows:

Attendance/ meetings convened	Director	Decision-making Board meetings	Meetings of Strategy and Investment Committee (Sannong Committee)	Meetings of Related Party Transactions and Risk Management Committee	Meetings of Audit Committee	Meetings of Consumer Protection Committee	Meetings of Nomination and Remuneration Committee
Executive Directors	Wang Jikang	16/16	4/4	–	–	–	–
	Yi Xuefei	16/16	4/4	–	–	–	–
Independent Directors	Liu Shaobo	16/16	4/4	–	–	4/4	4/4
	Liu Heng	16/16	4/4	10/10	6/6	4/4	–
	Song Guanghui	16/16	4/4	10/10	–	–	4/4
	Zheng Jianbiao	16/16	4/4	–	6/6	–	4/4
	Yung Hin Man Raymond	16/16	4/4	–	6/6	–	4/4
Shareholders' Directors	Li Fangjin	16/16	–	10/10	5/6	–	–
	Su Zhigang	16/16	4/4	–	–	4/4	–
	Shao Jianming	16/16	4/4	10/10	–	–	–
	Zhang Yongming	16/16	4/4	–	–	–	4/4
	Liu Guojie	16/16	–	10/10	–	4/4	–
	Zhu Kelin	16/16	–	10/10	6/6	–	–

Notes:

(1) Directors who did not attend in person but appointed other directors to attend the meetings on their behalf, and directors who abstained from voting on related party transactions, were deemed to attend the meetings.

(2) Director Shao Jianming became an additional member of the Consumer Protection Committee on 3 December 2018. As the Consumer Protection Committee had not held any meeting thereafter, therefore, director Shao Jianming did not participate in any meeting of the Consumer Protection Committee during the Reporting Period.

(3) During the Reporting Period, the Audit Committee convened four decision-making meetings and two non-decision-making meetings. Director Li Fangjin was absent from a non-decision-making meeting.

(IX) Continuous Professional Development Program for Directors

During the Reporting Period, the Strategy and Investment Committee (Sannong Committee) of the Board of Directors held seminars on the topics of agriculture, farmer and rural in Qingyuan and Zengcheng, in order to understand the traditional village community services and the development of modern agriculture, and listen to customers' opinions and suggestions in relation to the upgrading of traditional credit concepts, optimizing outlet services and rural revitalization. In addition, independent and objective professional advice on the operation management were provided.

The Bank pays attention to the continuous training of the directors to ensure that all directors have a proper understanding of the Bank's operations and businesses and ensure that they understand their duties and responsibilities conferred by the relevant laws and regulations of the CBIRC, the CSRC, the Hong Kong Stock Exchange and the Articles of Association. During the Reporting Period, the members of the Board of Directors participated in the training on the "Administration of Performance of Directors and Supervisors of Commercial Banks" (《商業銀行董事、監事履職管理》), "Interim Measures on Equity Management of Commercial Banks" (《商業銀行股權管理暫行辦法》), "Guidance Opinions on Regulating the Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》), "Special Topic of A-share Listing – Finance and Internal Control" (《A股上市專題－財務與內控》), "Special Topic of A-share Listing – Key Points of A-share Issuance and Review" (《A股上市專題－A股發行與審核要點》) and "Special Topic of A-share Listing – High Requirements of Corporate Governance and Directors and Supervisors" (《A股上市專題－公司治理與董監高要求》), and participated in the SASAC's training for external directors, which broadened the Board of Directors' visions of macro-level decision-making, enhanced their ability to comprehend major policies and consolidated the intellectual capital of the Board of Directors.

(X) Performance of Independent Non-executive Directors

During the Reporting Period, the Bank had five independent non-executive directors, the number and proportion of which were in compliance with the relevant requirements of the CBIRC, the CSRC and the Listing Rules of the Hong Kong Stock Exchange. The Related Party Transactions and Risk Management Committee, Nomination and Remuneration Committee, Audit Committee and Consumer Protection Committee of the Bank are all chaired by independent directors. During the Reporting Period, the independent non-executive directors actively participated in the Board meetings and meetings of the respective special committees, provided advice and suggestions, played their due role effectively, and continued to effectively communicate with the Bank through various ways such as participating in field trips, special investigations and attending training.

The independent non-executive directors issued written independent opinions on major issues such as the profit distribution plan, senior management appointments, the engagement of auditors, and major related party transactions. In addition, the independent non-executive directors of the Bank also took full advantages of their professional advantages in the special committees of the Board of Directors and provided professional and independent opinions on the corporate governance and operation management, which has provided a powerful guarantee for the scientific decision-making process of the Board of Directors.

(XI) Directors' duties in preparing financial statements

The directors of the Bank acknowledge that they are responsible for the preparation of the financial statements of the Bank for the year ended 31 December 2018.

The directors of the Bank are responsible for reviewing and confirming the financial statements for each accounting period so that the financial statements give a true and fair view of the financial position, operating results and cash flows of the Bank.

In preparing the financial statements for the year ended 31 December 2018, the directors of the Bank have selected and applied applicable accounting policies consistently and have made prudent and reasonable judgments.

(XII) Special committees of the Board of Directors

The Board of Directors established five special committees in accordance with relevant laws and regulations, the Articles of Association and the Listing Rules, namely, the Strategy and Investment Committee (Sannong Committee), Related Party Transactions and Risk Management Committee, Nomination and Remuneration Committee, Audit Committee and Consumer Protection Committee.

During the Reporting Period, the special committees of the Board of Directors exercised their duties in an independent, regulated and effective manner in accordance with the law, which effectively enhanced the corporate governance of the Board of Directors, improved the working efficiency and ensured the stable and healthy development of various businesses of the Bank.

1. Strategy and Investment Committee (Sannong Committee)

During the Reporting Period, the Strategy and Investment Committee of the Board of Directors consisted of 10 directors. Its chairman was Mr. Wang Jikang, chairman and executive director. The members included Mr. Yi Xuefei, president and executive director, Mr. Liu Shaobo, Mr. Liu Heng, Mr. Song Guanghui, Mr. Zheng Jianbiao and Mr. Yung Hin Man Raymond, independent non-executive directors, Mr. Su Zhigang, Mr. Shao Jianming and Mr. Zhang Yongming, non-executive directors.

The main scope of authority of the Strategy and Investment Committee (Sannong Committee) during the Reporting Period include:

- Formulating the long-term development strategy and medium and long-term development objective of our Bank, and making recommendations to the Board of Directors;
- Formulating the development strategies of Sannong financial services, green credit and financial innovation, and promoting the establishment of the relevant work mechanisms;
- Making recommendations on the adjustments of strategies in response to the change in the operation environment, supervising and assessing the implementation of strategies and making relevant recommendations;

- Conducting research on and formulating relevant systems for external investment, making recommendations on and formulating plans for the major investment decisions of the Bank (including fixed asset investment and equity investment) and implementing group management on our subsidiaries;

- Conducting research on and formulating relevant system for external mergers and acquisitions, conducting research on the strategy for mergers and acquisitions and making recommendations on the implementation plan, including acquisition target, acquisition method, reorganization and consolidation;

- Conducting research on and planning diversified operation and development models, conducting research on and formulating organization models and management methods of finance group companies;

- Conducting research on the implementation of other major issues concerning the strategic development of the Bank.

In 2018, the Strategy and Investment Committee (Sannong Committee) held a total of six meetings, in which they reviewed and approved 24 resolutions such as the 2017 Report on the Implementation of Strategic Implementation Plan of Guangzhou Rural Commercial Bank Co., Ltd., the 2017 Final Accounts of Guangzhou Rural Commercial Bank Co., Ltd. and the 2017 Profit Distribution Plan of Guangzhou Rural Commercial Bank Co., Ltd..

2. *Related Party Transactions and Risk Management Committee*

During the Reporting Period, the Related Party Transactions and Risk Management Committee of the Board of Directors consisted of six directors. Its chairman was Mr. Song Guanghui, independent non-executive director. The members included Mr. Liu Heng, independent non-executive director, Mr. Li Fangjin, Mr. Shao Jianming, Mr. Liu Guojie and Mr. Zhu Kelin, non-executive directors.

The main scope of authority of the Related Party Transactions and Risk Management Committee during the Reporting Period include:

- Supervising senior management's risk control in terms of credit risk, market risk and operational risk, regularly assessing the Bank's risk and management status, risk tolerance and level and case prevention works, and advising on the improvement of risk management and internal control of the Bank;

- Making suggestions on improving the Bank's economic capital management and implementing the new capital agreement;

- Managing and examining related party transactions of the Bank in a timely manner and providing opinions thereon in order to control the risks arising from related party transactions.

During 2018, the Related Party Transactions and Risk Management Committee held a total of 10 meetings, in which they reviewed and approved 24 resolutions such as the 2017 Work Report and the 2018 Work Plan on Comprehensive Risk Management of Guangzhou Rural Commercial Bank Co., Ltd., the 2017 Work Report and the 2018 Work Plan on Compliance Risk Management of Guangzhou Rural Commercial Bank Co., Ltd. and the 2017 Work Report and the 2018 Work Plan on Information Technology Risk and Business Continuity Management of Guangzhou Rural Commercial Bank Co., Ltd..

3. Nomination and Remuneration Committee

During the Reporting Period, the Nomination and Remuneration Committee of the Board of Directors consisted of five directors. Its chairman was Mr. Liu Shaobo, independent non-executive director. The members included Mr. Song Guanghui, Mr. Zheng Jianbiao, Mr. Yung Hin Man Raymond, independent non-executive directors and Mr. Zhang Yongming, non-executive director.

The main scope of authority of the Nomination and Remuneration Committee during the Reporting Period include:

- setting up the selection procedures and criteria for directors and senior management, conducting preliminary review on the qualifications and credentials of candidates for directors and senior management and making recommendations to the Board of Directors;

- considering the compensation management system and policy of the Bank;

- formulating the remuneration plan for directors, supervisors and senior management, making recommendations on the remuneration plan to the Board of Directors and supervising the implementation of the plan;

- dealing with other matters conferred by the laws, regulations, regulatory requirements and the Board of Directors.

During 2018, the Nomination and Remuneration Committee held a total of four meetings, in which they reviewed and approved seven resolutions such as the 2017 Performance Report of Directors of Guangzhou Rural Commercial Bank Co., Ltd., the 2017 Assessment Incentive Results of the Leading Group of Guangzhou Rural Commercial Bank, the 2018 Assessment Incentive Plan of the Leading Group of Guangzhou Rural Commercial Bank Co., Ltd., and the Work System of Secretary of the Board of Directors of Guangzhou Rural Commercial Bank Co., Ltd..

4. *Audit Committee*

During the Reporting Period, the Audit Committee of the Bank consisted of five directors. Its chairman was Mr. Zheng Jianbiao, independent non-executive director. The members included Mr. Liu Heng, Mr. Yung Hin Man Raymond, independent non-executive Directors, Mr. Li Fangjin and Mr. Zhu Kelin, non-executive Directors.

The main scope of authority of the Audit Committee during the Reporting Period include:

- reviewing the accounting policies, financial position and financial reporting procedures of the Bank, and reviewing the risk and compliance conditions of the Bank;

- conducting the annual audit work of the Bank, preparing analytical report on the authenticity, completeness and accuracy of the information set out in audited financial reports and submitting the same to the Board of Directors for review and consideration.

During 2018, the Audit Committee held a total of six meetings, in which they reviewed and approved nine resolutions such as the 2017 Annual Audit Report on Financial Statements of Guangzhou Rural Commercial Bank Co., Ltd. (Draft), the 2017 Work Report and 2018 Work Plan on Internal Audit of Guangzhou Rural Commercial Bank Co., Ltd., the 2017 Internal Control Evaluation Report of Guangzhou Rural Commercial Bank Co., Ltd. and the Audit Report for a Three-year Period of Guangzhou Rural Commercial Bank Co., Ltd..

5. *Consumer Protection Committee*

During the Reporting Period, the Consumer Protection Committee of the Board of Directors consisted of five directors. Its chairman was Mr. Liu Heng, independent non-executive Director. The members included Mr. Liu Shaobo, independent non-executive Director, Mr. Su Zhigang, Mr. Shao Jianming and Mr. Liu Guojie, non-executive Directors.

The main scope of authority of the Consumer Protection Committee during the Reporting Period include: formulating the strategies, policies and objectives of the Bank's protection of consumer rights and interests, assisting the Board of Directors to urge the senior management to effectively conduct and implement relevant work, and supervising and assessing the consumer protection work regarding its comprehensiveness, timeliness and effectiveness, and the senior management's performance of duties.

During 2018, the Consumer Protection Committee held a total of four meetings, in which they reviewed and approved five resolutions such as "2017 Work Summary and 2018 Work Plan on Protection of Consumers' Interests of Guangzhou Rural Commercial Bank (《廣州農村商業銀行消費者權益保護2017年工作總結及2018年工作計劃》) and "Resolution Regarding Approving Director Shao Jianming as an Additional Member of the Consumer Protection Committee of the 2nd Session of the Board of Directors" (《關於審議補充邵建明董事為第二屆董事會消費者權益保護委員會委員》).

(XIII) The election process of Board members

According to the provisions of the Articles of Association, directors shall be elected or replaced at a shareholders' general meeting. The term of office of the directors shall be 3 years, and a director may be re-elected and re-appointed upon expiry of his/her term of office. The term of office of a director shall commence from the date on which directorship of the said director was confirmed by the banking regulatory authority of the State Council to the expiry of the current term of the Board of Directors. Before the expiry of the director's term of office, the shareholders' general meeting shall not dismiss any director without any reason.

Where re-election is not carried out promptly after a director's term of office expires, the director shall continue to perform the duties owed by a director before a new director is elected to take up the office, subject to the laws, regulations, regulatory requirements and the Articles of Association.

The president or other senior management personnel may concurrently serve as a director, provided that the aggregate number of the directors who concurrently serve as senior management and employee representative directors shall not exceed one half of the total number of directors of the Bank and the number of the directors in the Board of Directors who serve as senior management shall be no less than two.

The Board of Directors may comprise employee representative(s) of the Bank. Employee representatives who serve as directors shall become members of the Board of Directors after elected by employee representatives at the staff representative assembly of the Bank, which shall be reported by the Board of Directors to the shareholders' general meeting.

The Board of Directors may duly increase the proportion of directors and independent directors with international exposure and management experience as well as professional knowledge in areas such as finance, accounting, risk management, financial management and financial technology.

After a director is elected and his/her directorship is approved by the banking regulatory authority of the State Council, the Bank shall enter into an employment contract with such director in a timely manner, which shall specify, among others, rights and duties between the Bank and the director, the term of office of the director, liability of the director due to violation of laws, regulations and the Articles of Association, and compensation on early termination of the said employment contract for any reason by the Bank, in compliance with the laws, regulations and provisions of the Articles of Association.

V. BOARD OF SUPERVISORS

(I) Composition of Board of Supervisors

Our Board of Supervisors currently consists of eight supervisors, comprising three employee representative supervisors (being Ms. Wang Xigui, Ms. He Heng and Mr. Lai Jiaxiong); three external supervisors (being Mr. Mao Yunshi, Mr. Chen Dan and Mr. Shao Baohua); and two shareholder representative supervisors (being Mr. Huang Yong and Mr. Zhang Dalin).

The supervisors of the Bank are elected for a term of three years and are eligible for re-election upon the expiration of such term. External supervisors are elected for a term of three years and are eligible for re-election, provided that the term of office may not exceed six consecutive years.

(II) Duties of Board of Supervisors

According to the Articles of Association, the Board of Supervisors assumes supervisory responsibility and exercises the following duties and powers according to law:

- To examine and provide comment in writing on the periodical reports of the Bank prepared by the Board of Directors;
- To examine and supervise the Bank's financial affairs and the management of consolidated financial statements;
- To monitor the performance of the directors and senior management with regards to the execution of their duties and to propose to dismiss the directors and senior management who are in breach of laws, regulations, the Articles of Association or resolutions of the general meetings;
- To demand rectification from a director and senior management whose acts are detrimental to the interests of the Bank;
- To make comprehensive assessment and conduct inquires to the directors, supervisors and senior management on their performance of duties, to report the assessment results of the performance of duties to the general meetings, and to file the same to regulatory authorities;
- To organize audits on economic responsibilities of the directors and senior management upon resignation;
- To conduct supervision and assessment over the performance of duties by the Board of Directors and senior management in respect of the key responsibilities including strategic management, operation decisions, financial management, remuneration management, capital management, internal control, comprehensive risk management, liquidity risk management, compliance management, fraud prevention, Sannong financial services and connected transactions and to report the same to the general meetings in accordance with the requirements, to consider relevant audit reports in accordance with the requirements, and to provide guidance with respect to the work of internal audit department of the Bank;

- To review the financial reports, operation reports, profit distribution plans and other financial information to be submitted by the Board of Directors to the general meetings; if any queries arise, to engage, in the name of the Bank, certified accountants and practicing auditors for assistance in the review;

- To propose the convening of extraordinary general meetings, to convene and preside over the general meetings when the Board of Directors fails to perform its responsibility of convening and presiding over the general meeting as required by the Company Law;

- To propose the proposals to the general meetings;

- To represent the Bank to negotiate with the directors and senior management, or to bring the lawsuits against the directors and senior management according to the Company Law;

- To conduct investigation if any abnormality is found in the operations of the Bank; and when necessary, to engage professional organizations such as accounting firms and law firms for assistance in its work at the expense of the Bank;

- To supervise the Board of Directors in establishing sound business philosophy, value standard and formulating development strategies according to the actual situation of the Bank;

- To make periodical assessments on the scientificity, reasonableness and effectiveness of the development strategies formulated by the Board of Directors and form the assessment reports;

- To supervise the procedure of the selection and appointment of the directors;

- To supervise on the scientificity and reasonableness of the remuneration management system and policy of the Bank and the remuneration plan of the senior management officers, and to propose the remuneration (allowance) arrangement of supervisors;

- To communicate with the banking regulatory authorities of the State Council regularly in relation to the condition of the Bank;

- To exercise other duties and powers which should be exercised by the Board of Supervisors as provided by laws, regulations, regulatory requirements and the Articles of Association.

(III) Principal Means of Performing Duties by Board of Supervisors

The Board of Supervisors mainly performs duties in the following ways: convening regular meetings of the Board of Supervisors; sitting in on general meetings, board meetings and important meetings of senior management related to operation and management; listening to reports on relevant work from senior management and departments; conducting annual performance assessment on directors or senior management; reviewing the Bank's business information, comprehensive risk management, internal control information and other reporting materials; reviewing relevant audit reports and providing guidance on the work of the internal audit department of the Bank; conducting special inspections of core work in the industry according to regulatory requirements; carrying out special research at institutes of the peer, branches and subsidiaries; putting forward work recommendations to the Board of Directors and senior management; and engaging third-party professional agencies to conduct audits, reviews or evaluation, etc.

(IV) Meetings of Board of Supervisors

During the Reporting Period, the Board of Supervisors convened a total of five meetings, at which 15 resolutions were considered and approved, including the 2017 work report of the Board of Supervisors, 2017 performance evaluation report of supervisors, 2017 performance evaluation report of directors, 2017 work report on internal audit and 2018 work plan.

The following table set out the attendance of supervisors in 2018 at the meetings of the Board of Supervisors and the special committees thereof:

Supervisors	Board of Supervisors	Nomination Committee	Audit and Supervision Committee
Wang Xigui	1/1	–	–
He Heng	5/5	2/2	–
Lai Jiaxiong	1/1	–	–
Mao Yunshi	5/5	2/2	–
Chen Dan	5/5	–	4/4
Shao Baohua	5/5	2/2	4/4
Huang Yong	5/5	–	4/4
Zhang Dalin	5/5	–	4/4

(V) Continuous Professional Development Program for Supervisors

Through research and study, the Board of Supervisors strengthened the innovation and supervision work and comprehensively improved the ability to perform duties. During the Reporting Period, the Board of Supervisors organized field research in various places where it gained in-depth insights into the pioneer supervisory experience of the board of supervisors of other banks, and through which the Board of Supervisors was able to improve its system of supervision and enhance the Supervisors' performance of duties.

The Bank pays attention to the continuous training of the supervisors. During the Reporting Period, the members of the Board of Supervisors participated in special trainings, including "Interim Measures on Equity Management of Commercial Banks" (《商業銀行股權管理暫行辦法》), "Guidance Opinions on Regulating the Asset Management Business of Financial Institutions" (《關於規範金融機構資產管理業務的指導意見》), "Special Topic of A-share Listing – Finance and Internal Control" (《A 股上市專題－財務與內控》), "Special Topic of A-share Listing – Key Points of A-share Issuance and Review" (《A 股上市專題－A 股發行與審核要點》), "Special Topic of A-share Listing – High Requirements of Corporate Governance and Directors and Supervisors" (《A 股上市專題－公司治理與董監高要求》) and "Administration Training for Performance of Duties of Duties of Directors and Supervisors of Commercial Banks" (《商業銀行董事、監事履職管理培訓》), which effectively enhanced their compliance awareness, broadened their macro-decision making perspective, and enhanced their ability to interpret major policies.

(VI) Special Committees of the Board of Supervisors

The Board of Supervisors established the Nomination Committee and the Audit and Supervision Committee. The Nomination Committee consisted of four supervisors, whereas the Audit and Supervision Committee consisted of five supervisors, and the chairmen are all served by external supervisors.

1. Nomination Committee

During the Reporting Period, the Nomination Committee of the Board of Supervisors consisted of four supervisors. The chairman was Mr. Mao Yunshi and the members included Ms. Wang Xiqui, Mr. Shao Baohua and Ms. He Heng.

The key terms of reference of the Nomination Committee during the Reporting Period include:

- Studying the selection and appointment criteria and procedures for supervisors;
- Conducting preliminary review on the qualifications of supervisors;
- Advising the Board of Supervisors on the number and composition of the Board of Supervisors;
- Examining the performance of supervisors;
- Conducting extensive search for qualified candidates of supervisors;
- Supervising the procedure of selection and appointment of the directors;
- Supervising on the scientificity and reasonableness of the remuneration management system and policy of the Bank and the remuneration plan of the senior management;
- Performing other duties as authorized by the Board of Supervisors.

In 2018, the Nomination Committee held two meetings, at which four resolutions were considered and approved, including the 2017 Performance Evaluation Report of Supervisors of Guangzhou Rural Commercial Bank Co., Ltd., the 2017 Performance Evaluation Report of Senior Management of Guangzhou Rural Commercial Bank Co., Ltd., the election of the chairman of the second session of the Board of Supervisors of Guangzhou Rural Commercial Bank Co., Ltd., and the adjustment of the composition of the special committees of the Board of Supervisors.

2. *Audit and Supervision Committee*

During the Reporting Period, the Audit and Supervision Committee of the Board of Supervisors consisted of five supervisors. The chairman was Mr. Shao Baohua and the members included Mr. Chen Dan, Mr. Huang Yong, Mr. Zhang Dalin and Mr. Lai Jiaxiong.

The main scope of authority of the Audit and Supervision Committee during the Reporting Period include:

- Supervising the performance of the Board of Directors and its members and the senior management;
- Organizing audits on economic responsibility of the directors and senior management during the terms of office and upon resignation;
- Examining and supervising the Bank's financial activities and the management of consolidated financial statements;
- Conducting supervision and assessment over the performance of duties by the Board of Directors and senior management in respect of the key responsibilities including strategic management, operation decisions, financial management, remuneration management, capital management, internal control, comprehensive risk management, liquidity risk management, compliance management, fraud prevention, Sannong financial services and connected transactions and reporting the same to the general meetings in accordance with the requirements, considering relevant audit reports in accordance with the requirements, and providing guidance with respect to the work of internal audit department of the Bank;
- Supervising the Board of Directors in establishing sound business philosophy, value standard and formulating development strategies according to the actual situation of the Bank;
- Making periodical assessments on the scientificity, reasonableness and effectiveness of the development strategies formulated by the Board of Directors and forming the assessment reports;
- Performing other duties authorized by the Board of Supervisors.

In 2018, the Audit and Supervision Committee held four meetings, at which seven resolutions were considered and approved, including the Opinions on Audit on Economic Responsibility of Yi Xuefei during 2016 (《易雪飛同志2016年度經濟責任審計意見》), the Opinions on Audit on Economic Responsibility of Yi Xuefei during 2017 (《易雪飛同志2017年度經濟責任審計意見》),the Opinion on Audit on Economic Responsibility of Liu Wensheng upon Resignation (《劉文聖同志離任經濟責任審計意見》), the 2017 Work Report and the 2018 Work Plan on Internal Audit of Guangzhou Rural Commercial Bank Co., Ltd., the Administrative Measures for the Capital of Guangzhou Rural Commercial Bank (Trial), the 2017 Special Audit Report on Staff Costs (《2017年度薪酬費用的專項審計報告》) and the change from the Audit Committee of the Board of Supervisors to the Audit and Supervision Committee of the Board of Supervisors.

VI. SENIOR MANAGEMENT

The Bank has one president who shall be appointed or dismissed by the Board of Directors. The Bank has vice presidents, assistants to the president, business directors, certain chief officers and one board secretary. The vice presidents, assistants to the president, business directors are appointed or dismissed by the Board of Directors according to the president's nomination. The chief officers and board secretary are appointed or dismissed by the Board of Directors according to the chairman's nomination. The senior management members are in compliance with the laws and regulations and the qualifications as required by the banking regulatory institutions.

The president takes charge of the operation and management of the Bank, organize the implementation of the resolutions of the Board of Directors and report the work to the Board of Directors; organize the implementation of the Bank's annual business plans and investment proposals; draft proposals on the establishment of the Bank's internal management entities; draft the Bank's basic management system; formulate the Bank's specific regulations; propose to the Board of Directors to appoint or dismiss the vice presidents, assistants to the president, finance chief, internal auditor and compliance officer; and determine to appoint or dismiss management personnel other than those to be appointed or dismissed by the Board of Directors in accordance with laws and regulations, the Articles of Association and powers authorized by the Board of Directors.

The senior management of the Bank established the compliance and risk management committee, asset disposition review committee, asset and liability committee, finance approval committee, business continuity management committee, supervisory committee on performance of duties, human resources committee, comprehensive marketing committee, inclusive finance management committee and innovation and technology construction committee.

The Board of Directors evaluated the senior management of the Bank. The Bank formulated a system of senior management reporting to the Board of Directors, requiring senior management to report on the work situation during the previous working year. The Board of Directors evaluated the performance of their duties or work effectiveness, and used this as a basis on income distribution and rewards and punishments. The Bank further established and improved the assessment system for senior management of the Bank, ascertained the responsibilities of senior management, improved corporate governance structure, and promoted the Bank's steady and rapid development.

VII. 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 Companies ("Model Code") as set out in Appendix 10 to the Hong Kong Listing Rules. Having made specific enquiries, all directors and supervisors confirmed that they have complied with the Model Code during the year ended 31 December 2018.

VIII. RELATIONSHIP BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There is no financial, business, family or other material affiliated relationship between the directors, supervisors and senior management of the Bank.

IX. AMENDMENT TO ARTICLES OF ASSOCIATION

The Bank obtained approval from the preparation team of Guangdong Bureau of CBIRC on 12 November 2018, and the Articles of Association of Guangzhou Rural Commercial Bank Co., Ltd. (2017 Revision) came into effect.

At the 2018 First Extraordinary General Meeting held on 6 September 2018, the Bank approved the Articles of Association of Guangzhou Rural Commercial Bank Co., Ltd. (applicable after the issuance of A shares) and the Articles of Association of Guangzhou Rural Commercial Bank Co., Ltd. (applicable after the issuance of offshore preference shares). Of which, the Articles of Association of Guangzhou Rural Commercial Bank Co., Ltd. (applicable after the issuance of offshore preference shares) was approved by the preparation team of Guangdong Bureau of CBIRC, which will come into effect after the issuance of offshore preference shares by the Bank.

X. COMPANY SECRETARIES

Ms. Zheng Ying and Mr. Ngai Wai Fung are the joint company secretaries of the Bank. Each of the directors could discuss with the company secretaries for seeking opinions and obtaining information. Ms. Zheng and Mr. Ngai have confirmed that they attained no less than 15 hours of relevant professional training during the Reporting Period.

XI. EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The Bank engaged Ernst & Young to review the interim financial statements for 2018. At the extraordinary general meeting held on 6 September 2018, regarding the audit of the financial statements for the year 2018 based on the PRC standards and international standards, the Bank approved a resolution after consideration and review for the change of auditors from Ernst & Young Hua Ming LLP (Special General Partnership) and Ernst & Young to PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers, respectively.

In 2018, the remunerations as agreed to be paid by the Bank to PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers for the audit of the financial statements for the year were RMB4.75 million in total, and the remuneration paid by the Bank to Ernst & Young for the audit of the interim financial statements for the year was RMB1.18 million.

XII. RISK MANAGEMENT, INTERNAL CONTROL AND INSIDE INFORMATION MANAGEMENT

For the Group's risk management and internal controls, please refer to section headed "Management Discussion and Analysis".

During the Reporting Period, in line with regulatory requirements and the actual situation of the Bank, the Bank established the daily working mechanism of inside information, strengthened the Bank's confidential information management and registration management of inside information through special training, established a record system at all levels of the Bank, and strengthened the management of inside information.

XIII. SHAREHOLDER'S RIGHTS

(1) Convening Extraordinary General Meetings

The Shareholders shall enjoy the following rights in accordance with the Articles of Association:

If the Board of Directors is unable or fails to perform its duties of convening the shareholders' general meeting, the Board of Supervisors shall convene the meeting in due course; if the Board of Supervisors does not convene the meeting, the shareholders who individually or jointly hold more than 10% of the Bank's shares for more than 90 consecutive days may convene such meetings on their own initiative. The Board of Directors shall provide a written response as to whether or not it agrees to convene the extraordinary general meeting within ten days upon receipt of the proposal in accordance with the requirements of the laws, regulations, regulatory requirements and the Articles of Association;

If the Board of Directors agrees to convene the extraordinary general meeting, a notice convening such a meeting shall be issued within five days after the resolution of the Board of Directors is passed. If the Board of Directors does not agree to convene the extraordinary general meeting, it shall provide reasons;

In case the Board of Directors refuses to convene the extraordinary general meeting or class meeting, or does not give any response within 10 days upon receipt of the request, the shareholders who individually or jointly hold more than 10% of the voting shares at such proposed meeting shall have the right to propose to the Board of Supervisors for the convening of the extraordinary general meeting or class meeting, and shall make such request to the Board of Supervisors in the form of writing;

If the Board of Supervisors agrees to convene the extraordinary general meeting or class meeting, a notice convening the general meeting or class meeting shall be issued within five days upon receipt of the request. Changes made to the original request in the notice shall be approved by relevant shareholders; and

If the Board of Supervisors fails to give the notice of a general meeting or class meeting within the specified time limit, it shall be deemed to have failed to convene and preside over the meeting, in which case, the shareholders who individually or jointly hold more than 10% of the Bank's shares (such shares shall have voting rights at such proposed meeting) for more than 90 consecutive days may convene and preside over the meeting by themselves.

(2) Proposals to Shareholders' General Meetings

When the Bank convenes shareholders' general meetings, the Board of Directors, the Board of Supervisors and the shareholders who individually or jointly hold more than 3% of the total number of the Bank's shares carrying the right to vote shall be entitled to submit their proposals in writing to the Bank. The Bank shall include matters in the proposal which are within the scope of responsibilities of the shareholders' general meeting into the agenda.

Shareholders who individually or jointly hold more than 3% of the total number of the Bank's shares carrying the right to vote shall be entitled to submit temporary proposal 10 days prior to the convening of the shareholders' general meeting, and such proposal shall be made to the convener in writing. The convener shall, within 2 days upon receipt of the proposal, issue a supplementary notice of the shareholders' general meeting, and announce the contents of the temporary proposal. If otherwise specified in the listing rules of the stock exchange where the securities of the Bank are listed, such requirements shall be fulfilled at the same time.

(3) Enquires from Shareholders

If the shareholders have any enquiries on matters relating to the H Shares held, such as share transfer, change of address, reporting for loss of share certificates and dividend warrants, etc., please send the enquiries in writing to the following address:

Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17 Floor, Hopewell Centre, No. 183 Queen's Road East, Wanchai, Hong Kong
Tel.: (852) 28622863
Fax: (852) 28650990/(852) 25296087

If the shareholders have any enquiries on matters relating to the Domestic Shares held, such as share transfer, change of address, reporting for loss of share certificates and dividend warrants, etc., please send the enquiries in writing to the following address:

the Bank's Board of Directors' Office
No. 9 Yingri Road, Huangpu District, Guangzhou, PRC
Tel.: (020)28019324
Fax: (020)22389227

(4) Management of Investor Relations

Shareholders and investors may send enquiries to the Board to:
the Bank's Board of Directors' Office
No. 9 Yingri Road, Huangpu District, Guangzhou, PRC
Tel.: (020)28019324
Fax: (020)22389227
Email: ir@grcbank.com

(5) Information Disclosure

The Bank attaches importance to communication with shareholders, and seeks to improve understanding and communication among shareholders through various channels including general meetings, results announcement conferences, roadshows, receiving guests and telephone consultation.

XIV. STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AS SET OUT IN HONG KONG LISTING RULES

The Bank agrees to the principles contained in the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 14 to Hong Kong Listing Rules. The Company has been in full compliance with the provisions of the Code during the Reporting Period.

XV. REMUNERATION MANAGEMENT

(1) Remuneration System

In 2018, the Bank further improved its remuneration performance system, formulated "Plan for Remuneration Optimization and Adjustment of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行薪酬優化調整方案》), "Implementation Rules on Arrangement for Allocation of Performance-based Wage for Employees of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行員工統籌績效工資分配實施細則》) and "Administrative Measures on Performance-based Payment of Front and Back Market-oriented Departments of Guangzhou Rural Commercial Bank (2018 Revision)" (《廣州農村商業銀行中後臺市場化部門績效計價管理辦法(2018年修訂)》). At present, the Bank's current remuneration system includes: "Guangzhou Rural Commercial Bank Remuneration Management Measures (Trial)" (《廣州農村商業銀行薪酬管理辦法(試行)》), "Guangzhou Rural Commercial Bank Employee Performance Assessment Methods (Trial)" (《廣州農村商業銀行員工績效考核辦法(試行)》, "Implementation Rules on Arrangement for Allocation of Performance-based Wage for Employees of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行員工統籌績效工資分配實施細則》), "Administrative Measures on Performance-based Payment of Front and Back Market-oriented Departments of Guangzhou Rural Commercial Bank (2018 Revision)" (《廣州農村商業銀行中後臺市場化部門績效計價管理辦法(2018年修訂)》), "Guangzhou Rural Commercial Bank Performance-based Salary Pool Management Measures" (《廣州農村商業銀行績效工資池管理辦法》) and "Administrative Measures on Deferred Payment of Remuneration of Guangzhou Rural Commercial Bank" (《廣州農村商業銀行薪酬遞延支付管理辦法》). The Bank established a remuneration performance system that matches the organizational structure and position system of the Bank, it also used the performance management system to conduct scientific assessments, thereby enhancing the external market competitiveness and internal fairness of remuneration. In addition, the Bank established incentives and constraints that meet the requirements of the development of modern financial enterprises. The mechanism fully mobilized the employees' enthusiasm for work and effectively played the role of salary guarantee and incentive.

(2) Total remuneration for 2018

Details of the remuneration of the employees of the Bank in 2018 are set out in the section headed "Management Discussion and Analysis".

The Bank does not have any non-cash remuneration. Such annual remuneration plan has been reported and filed as required by the Guangzhou SASAC.

(3) Total Remuneration of Senior Management

For the remuneration of the senior management of the Bank in 2018, please refer to the section headed "Directors, Supervisors and Senior Management".

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors hereby presents the Report of the Board of Directors together with the audited financial statements of the Group for the year ended 31 December 2018.

I. BUSINESS REVIEW

(1) Business Review

The Group is primarily engaged in PRC banking and related financial services, primarily including corporate banking, retail banking and financial market business.

Further discussion and analysis of the business review as required by Schedule 5 to the Hong Kong Companies Ordinance, including the key risks and uncertainties faced by the Group and the possible future development plan of the Group's business, are set out in the "Management Discussion and Analysis" and "Directors, Supervisors, Senior Management and Employees" sections of this annual report. Such discussions form an integral part of this Report of the Board of Directors.

(2) Employment Relationship

With the aim of building a harmonious enterprise proactively, the Bank adhered to its people-oriented principle and emphasized on putting people first. The Bank continued to improve the staff's welfare system by establishing a file of assistance for employees in distress, expanding annual physical examination, supplementary medical insurance system and the coverage of employee enterprise annuity. It also carried out various forms of activities for employees, thereby cultivating a culture of unity, harmony and cohesion. The Bank continued to push forward the progress of democratic management at the grassroots level by actively supporting employees to participate in enterprise democratic management. Through establishing an unimpeded complaint mechanism and collecting and responding to employees' opinions and advice in a timely manner, employees' legal rights and interests were protected effectively. The remuneration distribution and welfare system was improved based on the principle of "priority to efficiency and impartiality", which allowed employees to share the enterprise's development achievements and enhanced its cohesion. Through diversified trainings with multiple levels and models conducted by Zhujiang Business School, enriched online learning platforms, and systems such as "Sun•Elites Cultivation Scheme" (《太陽•菁英人才培養工程方案》), the employee cultivation and management mechanism was refined.

(3) Relationship with Customers and Suppliers

The Bank actively promotes the financial services of deposit customers, loan customers and interbank customers, and strives for customers' understanding, trust and support. The Bank insists on the market principle for all customers who apply for loans, especially related customers, and avoids special credit aid priority.

The Bank adheres to the principles of openness, fairness and impartiality, employs suppliers in the form of tenders, negotiations and price quotations, and maintains good communication and cooperation with various suppliers.

(4) The Environmental Policy and Performance of the Bank

The Bank is committed to the long-term sustainability of the environment and community in which it operates. The Bank acted in an environmentally responsible manner and tried its best to comply with laws and regulations concerning environmental protection, and took effective measures to make effective use of resources, save energy and reduce waste.

On top of the overall orientation of the annual basic credit policy, the Bank emphasized the promotion of green credit from the strategic perspective and speeded up the development of green financial service system, while formulating the segmented credit policy for green credit (energy conservation and environmental protection) and increasing support for green economy, low-carbon economy and circular economy. Meanwhile, customers and businesses in industries with high energy consumption, high pollution or over-capacity remained to be listed in the withdrawn and restricted category, and the policy of orderly exit and pressure reduction was implemented incessantly. The Bank strictly prohibited the creation of any form of credit support for projects with serious environmental protection violations, prevented environmental and social risks and improved its environmental and social performance. Thus, the credit structure was optimized and the service level was improved to better serve the real economy. This helped promoting the green transformation of our investment and financing structure and business development, and advocating the development of green credit.

The Bank also promoted the concept of low-carbon and environmentally-friendly operations, advocated the concept of "green office, energy conservation and environmental protection" and integrated it into the construction and operation of office premises and business outlets. The Bank reduced printing to protect the environment, promoted paperless counters and green office, purchased energy-saving equipment, turned off lights and kept taps closed if not required, continued to reduce energy consumption and carbon emissions, and actively performed any possible environmental protection work.

(5) Details of major events affecting the company that occurred after the review of the financial year

The Bank conducted a comprehensive review of 2018 financial performance in compliance with national laws and regulatory requirements and prepared the 2018 annual report. After the end of the Reporting Period, the Bank did not have any events or cases that had a significant impact on the Bank.

(6) Permitted Indemnity Provision

According to code provision A.1.8, the Bank shall maintain appropriate insurance to cover the potential legal litigations initiated against directors of the Bank. In order to comply with such code provision, the Bank has purchased appropriate liability insurance for directors and to provide indemnity for their liabilities incurred during the operations of the Bank for the year ended 31 December 2018.

No permitted indemnity provision previously or currently in effect benefitted the directors of the Bank (whether entered into by the Bank or by others) or the directors' associates (if entered into by the Bank) at any time during the financial year and up to the date of the report of the Board of Directors.

(7) Equity-linked Agreement

During the year ended 31 December 2018, the Bank did not enter into any equity-linked agreement.

II. PROFITS AND DIVIDENDS

(1) Dividends

The revenue of the Group for the year ended 31 December 2018 and the financial condition of the Group as at that date are set out in the "consolidated financial statements" in this annual report.

Pursuant to the resolution passed at the 2017 Annual General Meeting held on 31 May 2018, the Bank paid a cash dividend of RMB0.20 (tax inclusive) per share for 2017 to all shareholders in an aggregate amount of approximately RMB1.962 billion (tax inclusive). Such dividend was paid to the domestic shareholders whose names appeared on the register of members after the closing of market on 14 June 2018. Such dividend was denominated in Renminbi, and paid to domestic shareholders and H shareholders in Renminbi and Hong Kong dollars, respectively. The exchange rate for dividend paid in Hong Kong dollars was the average middle rate of Renminbi against Hong Kong dollars for the five business days preceding the date of declaration of such dividend at the 2017 Annual General Meeting (i.e. 31 May 2018, inclusive) as announced by the PBOC (i.e. HK$1.00 to RMB0.816228), and the final dividend per H Share was HK$0.24503 (tax included). Such dividend was paid on 13 July 2018.

The Board of Directors has proposed the payment of a cash dividend of RMB0.20 (tax inclusive) per share for 2018 to all shareholders in an aggregate amount of approximately RMB1.962 billion (tax inclusive). The payment of such dividend is subject to consideration at the 2018 Annual General Meeting, and, if approved, such dividend will be paid to the domestic shareholders and H shareholders whose name appeared on the register of members of the Bank after the closing of market on 4 June 2019. Such dividend will be denominated in Renminbi, and paid to the domestic shareholders and H shareholders in Renminbi and Hong Kong dollars, respectively. The exchange rate of Renminbi against Hong Kong dollars for dividend paid in Hong Kong dollars shall be the average middle rate for the five business days preceding the date of declaration of such dividend at the 2018 Annual General Meeting (i.e., 24 May 2019, inclusive) as announced by the PBOC. It is expected that the dividend payment date will be 21 June 2019.

The Bank has not proposed any resolutions to convert the capital reserve to increase the share capital in the past three years. The cash dividend distribution for ordinary shareholders of the Bank for the past three years is as follows:

Item	2017	2016	2015
Distribution amount per share (tax inclusive, RMB)	0.20	0.20	0.20
Cash dividend (tax inclusive, RMB100 million)	19.62	16.31	16.31
Ratio of cash dividend (%)	20.00	20.00	20.00

(2) Tax on Dividends

According to the applicable provisions of the "Enterprise Income Tax Law of the People's Republic of China" and the "Individual Income Tax Law of the People's Republic of China" and its implementation rules, for the domestic shares and the holding of the Bank's shares via Hong Kong Stock Connect, the Bank shall withhold and pay the individual income tax at the rate of 20% according to the national tax law for the dividends of natural person shareholders, while corporate shareholders shall make its own declaration in accordance with the requirements of the national tax law.

Taxes on H Shares are subject to the Hong Kong tax law.

According to the Enterprise Income Tax Law and its implementation rules, both effective on 1 January 2008, before distribution of dividends, the Bank shall withhold and pay the enterprise income tax at the rate of 10% for non-resident enterprise shareholders whose names appear on the Bank's register of members for H Shares.

According to the Notice on Issues Concerning Taxation and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348), the Company shall withhold and pay individual income tax for individual holders of H Shares.

If the individual holders of H Shares are Hong Kong or Macau residents or residents of the countries or regions which have an agreed tax rate of 10% under the relevant tax treaties with the PRC, the Bank will withhold and pay individual income tax at the rate of 10% on behalf of such shareholders.

If the individual holders of H Shares are residents of the countries or regions that have a tax rate lower than 10% under the tax treaties with the PRC, the Bank will withhold and pay individual income tax at the rate of 10% on behalf of such shareholders. If such shareholders claim refund of the amount in excess of the individual income tax payable under the tax treaties, the Bank can apply on behalf of such shareholders according to the relevant tax treaties for the relevant agreed preferential tax treatment provided that the relevant shareholders submit the relevant documents and information in a timely manner required by the Administrative Rules on Enjoying Treatment under Taxation Treaties by Non-resident Taxpayers (State Administration of Taxation Announcement, 2015, No. 60) and the provisions of the relevant tax treaties. The Bank will assist with the tax refund subject to approval of the competent tax authority.

If the individual holders of H Shares are residents of the countries or regions that have a tax rate higher than 10% but lower than 20% under the tax treaties with the PRC, the Bank will withhold and pay individual income tax at the applicable tax rates stated in such tax treaties on behalf of such shareholders.

If the individual holders of H shares are residents of the countries or regions that have a tax rate of 20% under the tax treaties with the PRC, or that have not entered into any tax treaties with the PRC, or otherwise, the Bank will withhold and pay individual income tax at the rate of 20% on behalf of such shareholders.

III. ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The 2018 Annual General Meeting (the "AGM") will be held on Friday, 24 May 2019. In order to determine the holders of shares who are eligible to attend and vote at the AGM, no transfer of shares will be registered from Wednesday, 24 April 2019 to Friday, 24 May 2019, both days inclusive. For those holders of H Shares who wish to attend and vote at the 2018 AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the Bank's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 23 April 2019.

IV. RESERVES

Details of the movements of the Group's reserves available to shareholders for the year ended 31 December 2018 are set out in the consolidated statement of changes in equity.

V. SUMMARY OF FINANCIAL INFORMATION

A summary of the Group's operating results, assets and liabilities for the year ended 31 December 2018 is set out in the summary of financial data in this annual report.

VI. DONATIONS

Donations made by the Group during the year ended 31 December 2018 for charitable and other purposes amounted to RMB2,962,500. Sun Charity Foundation, which was established by the Bank, made an external donation of RMB7.2 million.

VII. PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Group for the year ended 31 December 2018 are set out in note 28 "Property and Equipment" to the "Financial Statements" of this annual report.

VIII. RETIREMENT BENEFITS

Details of the retirement benefits provided to employees of the Group are set out in note 37 "Salaries, bonuses, allowances and subsidies payable" to the "Financial Statements" of this annual report.

IX. ULTIMATE PARENT AND ITS SUBSIDIARIES

Details of the Bank's ultimate parent and its subsidiaries as at 31 December 2018 are set out in the relevant sections of "Changes in Share Capital and Shareholders – Substantial Shareholders" and notes to the "Financial Statements" of this annual report, respectively.

X. PURCHASE, SALE AND REDEMPTION OF SHARES OF THE BANK

During the Reporting Period, the Bank and its subsidiaries did not purchase, sell or redeem any shares of the Bank.

XI. PRE-EMPTIVE RIGHTS

The Articles of Association and relevant PRC laws did not grant the shareholders of the Bank the terms of pre-emptive rights. The Articles of Association provide that based on the requirements for operation and development and in accordance with laws and regulations and the Articles of Association, after the shareholders' general meeting has made its resolution and the approval has been obtained from the banking regulatory authorities of the State Council, the Bank may increase its registered capital in the following ways: offering new shares to non-specific investors; issuing new shares to specific investors; allotting new shares to existing shareholders; distributing new shares to existing shareholders; converting capital reserve into share capital; or any other methods approved by laws and administrative regulations.

XII. MAJOR CUSTOMERS

As at the end of the Reporting Period, the balance of the Bank's loans to any single borrower did not exceed 10% of the Bank's net capital. The interest income from the five largest customers of the Bank did not exceed 30% of the Bank's total interest income. None of the directors of the Bank and their close associates or any shareholder which to the knowledge of the directors own more than 5% of the number of issued shares had any interest in the abovementioned five largest customers.

XIII. SHARE CAPITAL

Details of the movement in share capital of the Bank during the Reporting Period are set out in note 38 "Share Capital" to the "Financial Statements" of this annual report.

XIV. TOP TEN SHAREHOLDERS AND SHAREHOLDINGS

The top ten shareholders and their shareholdings as at the end of 2018 are set out in "Changes in Share Capital and Shareholders" of this annual report.

XV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the list of the members of the Board of Directors, their biographies and changes as at the end of the Reporting Period are set out in "Directors, Supervisors, Senior Management and Employees". Such section also forms an integral part of the report of the Board of Directors.

XVI. CONFIRMATION OF INDEPENDENCE FROM INDEPENDENT NON-EXECUTIVE DIRECTORS

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

XVII. FINANCIAL, BUSINESS AND FAMILY RELATIONSHIP BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There is no financial, business, family or any material relationship between the directors, supervisors and senior management of the Bank.

XVIII. 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.

XIX. 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 or supervisor of the Bank or entities related to such persons 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 during the Reporting Period (excluding service contracts).

XX. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

During the Reporting Period, none of the directors and supervisors of the Bank entered into service contracts with the Bank that cannot be terminated by the Bank within one year without payment of compensation (other than statutory compensation).

XXI. MANAGEMENT CONTRACTS

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

XXII. DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

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

XXIII. 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.

XXIV. CONNECTED TRANSACTIONS

The transactions entered into among the Bank and its connected persons (as defined in the Hong Kong Listing Rules) will constitute connected transactions of the Bank under Chapter 14A of the Hong Kong Listing Rules, subject to the exemption 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 connected transactions and confirmed that such transactions were in compliance with the disclosure requirement 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 IASB. Related party transactions set out in note 48 to the consolidated financial statements do not constitute connected transactions of the Bank under Chapter 14A of the Hong Kong Listing Rules.

During the Reporting Period, the connected transactions of the Bank are entered into in the ordinary course of business on normal commercial terms, and are in compliance with the disclosure exemption requirement under the Hong Kong Listing Rules.

XXV. REMUNERATION POLICY OF 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 under the guidance of relevant policies of the PRC.

The Bank's remuneration policy for directors, supervisors and senior management is based on the principle of combining rights, responsibility and benefits, taking into account short-term benefits and long-term incentives, and governmental regulation and market adjustment, and has defined a structured remuneration system comprising basic salary, incentives and allowances.

The Bank participates in various statutory contribution retirement plans of Chinese governmental organizations of different levels for its employees including directors, supervisors and senior management. Since the State has not issued relevant policies, the Bank has not implemented mid-term and long-term incentive plans for directors, supervisors, senior management and other staff members.

XXVI. SUFFICIENT PUBLIC FLOAT

As of 31 December 2018, the public float for H Shares was 18.56%. Based on information that is publicly available to the Bank and to the knowledge of the directors, as at the date of this report, the Bank has maintained sufficient public float as required by the Hong Kong Stock Exchange.

XXVII. TAX RELIEF (H SHAREHOLDERS)

(1) Non-resident Shareholders

Pursuant to the relevant requirements of Enterprise Income Tax Law of the People's Republic of China and related implementation rules, the relevant provisions of the Notice of the State Administration of Taxation on Issues Relating to PRC Resident Enterprises' Withholding Enterprise Income Tax in Respect of Dividends to Be Received by Non-resident Enterprise Holders of H Shares (Guo Shui Han [2008] No. 897), the List of Agreed Dividend Tax Rates (Guo Shui Han [2008] No. 112), the Bank will withhold the enterprise income tax at the rate of 10% for non-resident enterprise shareholders whose names appear on the register of members of the H Shares on 31 May 2018. The effective tax rate will be subjected to the tax treaty.

(2) Non-resident Individual Shareholders

According to the document Guo Shui Han [2011] No. 348 issued by the State Administration of Taxation, the Bank is entitled to relevant preferential tax arrangement for non-resident individual holders of H Shares pursuant to the taxation agreements between the countries where they are residing and China and the regulations 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 will apply for the relevant entitlements thereunder on their behalf.

2. As for non-resident individual holders of H Shares in countries which have entered into an agreement with China in respect of a 10% tax rate, the Bank will withhold 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 will withhold 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 will withhold individual income tax at the tax rate of 20%.

XXVIII. USE OF PROCEEDS

On 23 March 2018, the Bank completed the issuance of the tier-two capital bonds in the total amount of RMB10 billion in the national inter-bank bond market. The tier-two capital bonds had a fixed coupon rate of 4.90% and a term of 10 years. Interest will be paid on March 23 of every year, while the principal will be repaid in a lump sum on maturity. The Bank has the option to redeem the bonds at the end of the fifth year.

The proceeds from the issuance of the tier-two capital bonds, after deducting the issuance expense, have all been used to replenish the capital of the Bank and put into operation together with other funds of the Bank.

XXIX. ISSUE OF DEBENTURES

For the issue of debentures by the Bank, please refer to "Changes in Share Capital and Shareholders – Issue, Purchase, Sale and Redemption of Securities" of this annual report.

XXX. SOCIAL RESPONSIBILITY

The Bank attaches great importance to corporate social value and contribution to society, and has always adhered to the service concept of "taking care of every step with our heart", deepened the cooperation with relevant parties, and proactively performed its economic, social and environmental responsibilities. The Bank comprehensively built an inclusive financial service network, innovated financial service products and service models for small and micro enterprises, and insisted on serving the real economy and people's livelihood needs. Also, through the incessant improvement of salary system and system development, the Bank gave full play to the retention and incentive effect of salary on talents. It resolutely implemented the "development concept of innovation, coordination, green, development and sharing that must be implemented unswervingly" put forward by the 19th National Congress of the Communist Party of China, and emphasized the promotion of green credit from the strategic perspective on top of the overall orientation of the bank-wide annual basic credit policy. Lastly, with the public welfare project of "Sun•Silent Love" (太陽•無聲的愛), it helped hearing-impaired children return to a hearing world through early cochlear implant and rehabilitation training.

In addition, because of the business nature of the Bank, current environmental laws and regulations do not have a significant impact on the Bank.

For the details of the environmental information and performance of social responsibility of the Bank, please refer to the "2018 Environmental, Social and Governance Report" of the Bank to be published separately.

XXXI. SUBSEQUENT EVENTS

The Bank intends to issue A shares with the total amount of no more than 1,596,694,878 shares, and the issuance proportion does not exceed 14% of the total share capital after the issuance. The relevant proposal on the above matter was considered and approved by the general meeting of the Bank held on 6 September 2018.

The Bank intends to issue offshore preference shares with the total amount up to the equivalent of RMB10.0 billion. The relevant proposal on the above matter was considered and approved by the general meeting of the Bank held on 6 September 2018.

The Bank intends to participate in the establishment of Chaozhou Rural Commercial Bank (潮州農村商業銀行), Shaoguan Rural Commercial Bank (韶關農村商業銀行) and Guangdong Nanxiong Rural Commercial Bank (廣東南雄農村商業銀行) through equity investments. The relevant proposals on the above investment matters were considered and approved by the Board of Directors of the Bank.

XXXII. OTHERS

As far as the Board of Directors is aware, the Bank has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Bank.

The Bank has adopted a code of conduct on terms no less exacting than the required standard in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its code governing securities transactions conducted by its directors and supervisors and relevant employees. After having made inquiries to all directors and supervisors, the Bank confirmed that they had complied with the above code during the Reporting Period. The Bank was not aware that any relevant employee had breached the code.

During the Reporting Period, the Bank was not aware that any shareholders had waived or agreed to any arrangement to waive dividends.

During the Reporting Period, none of the directors waived or agreed to relevant arrangement to waive remuneration.

During the Reporting Period, the Bank had not pledged any significant assets.

During the Reporting Period, there were no significant contracts entered into between the Bank or any of its subsidiaries and a controlling shareholder or its subsidiaries.

During the Reporting Period, the Bank or any of its subsidiaries had not accepted services provided by a controlling shareholder or its subsidiaries.

By order of the Board
Wang Jikang
Chairman

In 2018, the Board of Supervisors, in accordance with the Company Law, the "Guidelines for Corporate Governance of Commercial Banks", the Articles of Association, various rules and regulations of the Board of Supervisors and the general concept of "improving corporate governance and strengthening performance supervision", carried out the supervision work in an orderly manner, made efforts to improve the efficiency of supervision and continuously strengthened risk monitoring to ensure and safeguard the legitimate rights and interests of the shareholders, creditors, Company and employees.

I. MAJOR WORK

During the Reporting Period, the Board of Supervisors convened a total of five meetings, at which 15 resolutions have been considered and approved, including the work report of the Board of Supervisors, the appraisal report of duty performance of directors, supervisors and senior management, the opinions on audit on economic responsibility of Yi Xuefei during the term of office, the work report and work plan on internal audit. In addition, it reported 13 items including the implementation of the strategic implementation outline, the appraisal of internal control, the review of major related party transactions and the reporting of general related transactions.

During the Reporting Period, by proactively carrying out special inspections on the Bank's financial activities, risk management, internal control and performance of duties; conducting in-depth grass-root researches; reviewing the Bank's operation management, comprehensive risk management and internal control information reports; and strengthening the guidance on internal audit and internal control compliance, the Board of Supervisors fully performed its supervisory duties. It mainly carried out the supervision work in the following aspects:

(I) Strengthening of system development and underpinning of supervision

During the Reporting Period, in accordance with the Company Law, the Guidelines for Corporate Governance of Commercial Banks, the Articles of Association and relevant provisions of regulatory authorities, it generally sorted out and revised the then prevailing rules and regulations of the Board of Supervisors. Such revisions included those to the "Rules of Procedures for the Board of Supervisors of Guangzhou Rural Commercial Bank Co., Ltd. (applicable after the listing of A shares)" and the "Rules of Procedures for the Board of Supervisors of Guangzhou Rural Commercial Bank Co., Ltd. (applicable after the issuance of offshore preference shares)". Further, it formulated relevant operational rules accordingly and pushed the modernization of corporate governance. Preliminarily, a supervisory system of the Board of Supervisors comprehensively comprising "supervisory contents, supervisory resources, supervisory manner, tracing and rectification" was established.

(II) Emphasis on special inspections and implementation of process supervision

During the Reporting Period, in line with regulatory requirements, arrangement for industry major tasks and working plan for the year, the Board of Supervisors organized and implemented special inspections for certain aspects such as agents-selling wealth management businesses, connected transactions, state-owned asset transactions, system establishment and performance thereof, performance capability, "process optimization, method improvement, efficiency enhancement", etc. Also, relevant management suggestions were put forward for any issues spotted.

(III) In-depth investigation and research and upgrading of supervision capability

It strengthened the communication and information exchange with regulatory authorities as well as outstanding peers for learning and imitating the valuable experience of their board of supervisors, thereby improving its corporate governance. The scrutiny, investigation and research for the progress of establishments of the boards of supervisors in the subsidiaries of the Bank were commenced while relevant suggestions were put forward in respect of the Board of Supervisors' system of communication about supervision, training system, etc. Also, it went further to each department (office) under the head office and some branches to launch in-depth investigation and research activities so that it could comprehensively understand certain conditions in the industry such as regular operational management, risk management and internal control.

(IV) Strengthening of performance supervision and enhancement of supervision quality

During the Reporting Period, the Board of Supervisors continued to deepen the performance supervision by strengthening the surveillance over performance of duties. By attending important meetings of the party committee, the Board of Directors, general office, special issues of business lines, special issues about asset disposals and so on, the Board of Supervisors of the Bank participated in the supervision on the decision making process of matters about significant decisions. Besides, it organized and commenced audits on economic responsibilities of the directors, supervisors and senior management, including the audit on Comrade Yi Xuefei during the terms of office and the audit on Comrade Liu Wensheng upon resignation, and incorporated the audit results into the performance assessment archive. By reviewing the self-assessment reports of the Board of Directors, special committees under the Board of Directors and Directors as well as the duty performance reports of senior management and senior management members, the Board of Supervisors conducted performance assessment of the members of the Board of Directors and the senior management based on the appraisal method.

II. INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON RELEVANT MATTERS

Legal operation of the Bank: During the Reporting Period, the Bank operated with standardized management in accordance with the laws, and the decision-making procedures of the Bank were legal and valid. The Board of Supervisors was not aware of any performance of the directors and senior management members of the Bank that were in breach of the laws, regulations and the Articles of Association of the Bank or jeopardized the interest of the Bank and its shareholders.

Preparation of annual report: The procedures of preparation and approval of this annual report are in compliance with relevant laws, regulations and regulatory requirements, and this annual report gives a true, accurate and complete view of the financial positions and operating results of the Bank.

Use of proceeds from fundraising activities: During the Reporting Period, the Bank issued the tier-two capital bonds in the size of RMB10 billion, and the use of proceeds was consistent with the purpose stated in the Bank's prospectus.

Asset acquisition and disposal by the Bank: During the Reporting Period, the Board of Supervisors was not aware of any insider trading or any act that damaged the shareholders' interests or caused the loss of the Bank's assets in the process of the Bank's acquisition and sale of assets.

Related party transactions: During the Reporting Period, the Bank entered into related party transactions in accordance with the laws and regulations of China and the relevant requirements of Articles of Association. The Board of Supervisors was not aware of any activities that were in breach of the principles of honest and fair or jeopardized the interest of the Bank and its shareholders.

Implementation of resolutions passed at general meeting(s): The Board of Supervisors lodged no objections to the reports and proposals submitted by the Board of Directors to the general meeting during the Reporting Period. Through supervising the implementation of the resolutions passed at the general meeting(s), it concluded that the Board of Directors had duly implemented such resolutions.

Internal control: During the Reporting Period, the Bank established a comprehensive risk management system in strict accordance with the regulatory requirements, continued to strengthen and improve the establishment of internal control system. The Board of Supervisors was not aware of any material defects in respect of the completeness and rationality of the risk management and internal control mechanism and system of the Bank.

MAJOR EVENTS

CORPORATE GOVERNANCE

During the Reporting Period, the Bank continued to refine its corporate governance mechanism and improve its corporate governance in strict compliance with laws and regulations such as the Company Law of the People's Republic of China, the Commercial Banking Law of the People's Republic of China as well as the Listing Rules and in line with actual conditions of the Bank.

For the 12 months ended 31 December 2018, the Bank had been observing and complying with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Meanwhile, the Bank had been observing and complying with most of the recommended best practices set out in the aforementioned code.

IMPLEMENTATION OF DISTRIBUTION FOR DIVIDENDS

Upon the approval of the 2017 Annual General Meeting of the Bank, the Bank distributed final dividend for 2017 to the domestic shareholders whose names appeared on the register of members of the Bank as of 14 June 2018. Such dividend was distributed on 13 July 2018 in cash in the amount of RMB0.20 (tax inclusive) per share and RMB1.962 billion (tax inclusive) in aggregate. The Bank did not declare any interim dividends for 2018.

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 RMB7,673 million, accounting for 2.03% of the total loan of the Bank. Loans under 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 legal proceedings or arbitrations which has a 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 involved an amount of RMB29.39 million. In the opinion of the Bank, it will not have any material effect on our operating activities.

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

During the Reporting Period, the Bank and all its directors, supervisors and senior management had no record of being subject to inspections, administrative penalties and circulating criticisms by CSRC or public censures by the Hong Kong Stock Exchange, or penalties by relevant regulatory bodies that posed significant impact on the Bank's operation.

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

During the Reporting Period, no shareholders held 5% or more of the total issued share capital of the Bank.

MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

MATERIAL ACQUISITION AND DISPOSAL OF ASSETS AND MERGER OF ENTERPRISES

During the Reporting Period, Zhengzhou Zhujiang County Bank Co., Ltd., in which the Bank holds 35% of the equity interests, obtained business license from the CBIRC Henan Office and officially started its operations on 16 May 2018.

MAJOR CAPITAL OPERATION

During the Reporting Period, the Bank completed the issuance of the first tranche of the tier-two capital bonds of 2018 (the "Bonds") in the size of RMB10 billion on 23 March 2018. The Bonds are at a ten-year fixed rate, and can be conditionally redeemed at the end of the fifth year by the Bank as the issuer who has the right to redeem the Bonds at face value in whole or in part upon obtaining the approval from relevant regulatory authorities. The face value of the Bonds is RMB100 with an issuing price of RMB100.

REPORT ON SANNONG FINANCIAL SERVICES

As the base of the Bank, the "Sannong" business roots in the local area and is operated in connection with agriculture. More favour to farmers is the business philosophy to which the Bank always adheres and a new and unique model of Sannong financial service was thus made, namely, the project of "Realizing Hopes of Thousand Villages and Supporting the Village Community". This project supported the healthy development of local agriculture under Sannong services and the booming of the economy as a whole.

I. SANNONG WORK IN 2018

(I) Comprehensive launch of structural adjustment and improvement of service quality

1. Establishment of a professional, specialized and dedicated marketing framework for Sannong business

We improved the management system of marketing organizations and established the operational framework of the specialized working groups for Sannong business. By setting up specialized institutions, deploying special personnel and formulating specific management policies and measures, more intensive effort was put in our business for the purpose of specialized development of village community business.

Firstly, the Bank generally improved the organizational system. Through the framework and system of Sannong business working groups, the Bank newly established city update centers and Sannong business headquarters at all regional levels, thereby setting up the specialized institutions for providing Sannong services from top downwards. Secondly, a perfect personnel management mechanism was built and nearly 300 specialized marketing personnel were allocated for Sannong business, which rendered quality financial services to the agriculture, rural areas and farmers in a better way. Thirdly, with Sannong services as its core, the Bank adopted specific ancillary management policies and measures in line with its existing organizational structure.

2. Optimization of the appraisal system for Sannong business performance

The Sannong business performance appraisal system was optimized with certain achievements, including the allocation of specialized financial resources, the establishment of a sound operation system of different levels, the preparation of the specialized performance contract for customer managers, and the launch of multi-lines comprehensive development plan for Sannong business, etc. In addition, the Bank explored ways to develop an internal and external incentive mechanism under the specialized operation framework of Sannong business.

3. Thrust of upgrading the service quality of village community business on a multi-dimensional basis

Measures for upgrading the service quality of village community business were implemented. The Bank formulated a differential service upgrading plan for various customer groups such as village communities, villagers, persons working in basic village communities while specialized support was provided for some services, including outlet settlement, grant of credit and financing, asset value growth, onsite service, etc., thereby underpinning the foundation and development of village community business on a multi-dimensional basis.

(II) Continuous effort to carry out the special task of "Realizing Hopes of Thousand Villages and Supporting the Village Community" in depth

The task of "Realizing Hopes of Thousand Villages and Supporting the Village Community" is a long-term rural financial special task carried out by the Bank to respond to the provincial and municipal initiative of "developing inclusive finance, livelihood finance and community finance". Based on the "Six Goods" project of village community business, the task comprehensively upgraded the single and flat rural financial services, newly established a comprehensive, multi-level model of financial services for village community, prepared for the new rural future development, facilitated inclusive finance and supported the revitalization of village community.

1. Conducting good on-site inspection of village community

Through organizing the leadership of the head office and branches to visit the village community in a well-organized and standardized way, an effective communication mechanism between the Bank and villages was developed, in an effort to understand and satisfy the financial requirements of village community in time and actively facilitate the communication between the Bank and villages. In 2018, the Bank's leadership at different levels visited 1,311 village communities with a coverage ratio of 100%, which effectively collected and handled the opinions and recommendations proposed by the village communities and, thus, identified the development path with its own characteristics.

2. Delegating good personnel to provide rural financial services

In response to the national policy of "university graduates as village officials", the Bank delegates special personnel for rural financial services to work in basic village communities, so as to provide considerate financial services to the village officers and residents. In 2018, the Bank issued the "Cultivator Plan • Implementation Plan on Cultivating Sannong Financial Service Commissioners" (《耕耘者計劃•三農金融服務專員培養實施方案》) and improved the assessment and management mechanism of rural financial service commissioners, in a bid to provide quality financial services for village communities and villagers in a better manner, thereby further achieving a win-win situation in terms of cooperation between the Bank and villages.

3. Organizing good football matches

"Thousand Villages Football Match" is the first city-level rural football event in China hosted by the Bank with an aim to promote the development of football activities in rural area and improve the health of rural residents. With the official guidance by Guangzhou Mass Sports Guidance Center (廣州市群眾體育指導中心) and the strategic support of R&F Properties, 170 village teams participated in the second Thousand Villages Football Tournament, and the football team from Wenchong Village won the championship after intensive competitions. Through well-planned event organization and promotion in various forms, the Bank not only further consolidated the mutual benefit and win-win relationship among the Bank, the government and the villages, but also effectively promoted the provincial and municipal inclusive financial work and the health of all people, as well as the football development in rural area of South Guangdong. It provided a brand-new model of rural support through finance for the realization of the new rural construction and the implementation of the rural revitalization strategy.

4. Publishing a good journal

The Bank prepares a special journal on rural matters with focus on new village construction and rural economic development to provide recommendations from the perspective of a commercial bank, which provides importance reference to the local government and basic village communities in respect of new village construction. In 2018, the Bank published three volumes of "Cuckoo•Village Journal" (布穀•村社專輯), copies of the journal were distributed to 1,311 village communities in total with a coverage ratio of 100%. It assisted in the discussion of rural development and promoted the construction and development of new villages.

5. Delivering good performance in social welfare

The Bank continued to push forward the work of "Village Construction Support" (支持村建) project, and supported the village communities to improve the living environment and construct the ecologically livable beautiful villages. Meanwhile, by relying on Sun Charity Foundation, rural public welfare undertakings, such as poverty alleviation, education support and support of underprivileged in rural areas were carried out proactively, which fully evidenced the Bank's sense of social responsibility and the eager to contributing to the society. As of the end of 2018, the "Village Construction Support" project implemented a total of 68 items, involving 58 administrative villages; and the public welfare project helped a total of 806 people with the total donation of RMB3.2557 million.

6. Providing good internet services

The Bank integrated the advantageous resources of village communities. Based on the signature agricultural products, the Bank established a characteristic e-commerce platform and service network for sale of agricultural and sideline products, and provided comprehensive online financing services covering the whole process of the new rural operating model. In 2018, the Bank launched the system 2.0 for new e-commerce platform of Sun Market. The resource integration and model innovation work were carried out by closely focusing on villages, village communities, farmers and need for producing and selling agricultural products. A new mode of integrated joint e-commerce for production, supply and sale of agricultural products was established, which assisted in rural industry development.

(III) Continuous establishment and promotion of inclusive financial service channels

Currently, the Bank has formed a diverse inclusive financial service network with wide coverage comprised of operating outlets, community banks, off-bank self-service banking, community financial service station, rural financial service station, cash terminals for farmers, online banking, mobile banking, telephone banking and direct-selling banking, which connected the "last kilometer" of Sannong services. As of the end of 2018, the Bank had 619 outlets (including 83 community banks), 10 community financial service stations, 125 rural financial service stations and approximately 2,170 ATMs in Guangzhou, which greatly satisfied the needs of inclusive financial services in Guangzhou.

The Bank constantly enriched and improved the functions of self-service and online services. In addition to basic financial services, various convenient services and functions such as payment of utilities, mobile phone top-up, payment of fine for traffic violation are also available. Meanwhile, the Bank has offered an online system for taking a queue number and a mobile terminal for service pre-processing. Customers can make appointment by taking a queue number and pre-process online business via WeChat Official Account and mobile banking. The use of online diversion has improved the efficiency of processing village community business and enhanced the experience of village customer. In addition, for the important customers of village community, the Bank added the function of "exceptional setting" for queuing, thereby ensuring the exclusive rights of village communities in all aspects.

(IV) Optimization and innovation of "Sannong" financial services and products

1. Quick Bonus Loan for Villagers (村民分紅快貸)

Targeting the customer base of local villagers who have continuous bonus income, the Bank developed and launched the "Quick Bonus Loan for Villagers", which is operated online, in July 2018. This product is an online exclusive quick loan that can be operated online during the whole process, as such, villager customers can fully experience the convenience of online business. It effectively solves the problems of "complicated procedures, high thresholds and lengthy business process" in handling the loan application for villager customers. As of the end of 2018, a total of 548 loans were issued with an amount of RMB51.42 million.

2. Sun•Villager E-loan (太陽•村民e貸)

In order to further broaden the operation and financing channels of Sannong customers, the Bank launched the product of "Sun•Villager E-loan", which is fully operated online, in 2018. This product provides villagers with a "convenient, fast, small amount" pure credit online personal business loan. As of the end of 2018, the total loan granted under the product amounted to RMB210 million, involving 1,789 villagers.

3. Sun SME Loans•Craftsman Loan (太陽小微貸•匠人貸)

"Sun SME Loans•Craftsman Loan", an exclusive loan product, was launched specially for the farmers who are engaged in featured handicraft, planting, breeding and other industries in Guangdong Province. This product addresses the problem of "weak guarantee and difficulty in financing" of farmers through setting differentiated approval and credit conditions, and conducts business by a combined model of online application and use of funds, as well as offline investigation and approval. It improves the credit experience of farmers and further satisfies the credit requirements of Sannong customers.

4. Optimization of Sannong investment products

In 2018, the Bank kept improving the financial wealth management product system and provided Sannong customers with low-threshold, high-yield and risk controllable investment channels. Through system optimization and product model innovation, Sannong customers were provided with exclusive wealth management products. On a cumulative basis, the Bank issued 35 products and raised RMB6.591 billion, involving 32,700 customers. Among them, through organizing a series of publicity and promotion campaigns including "Extending Treasury Bond Business to Village Communities" ("國債業務進村社"), the Bank successfully completed the sales of 18 tranches of saving treasury bond products in 2018, of which, 187 agriculture-related outlets sold saving treasury bonds of RMB275 million, accounting for 35.9% of the overall sales.

5. Continuous promotion of agricultural chain products

The comprehensive modern agricultural financial products under the "Agricultural Chain" focuses on the development of modern agricultural industry and its sub-sector, including planting, breeding, cold chain logistics and agricultural leisure tourism. It had focused on supporting leading agricultural enterprises in various sub-sectors such as pig breeding, aquaculture and comprehensive agricultural industry, and provided enterprises with flexible security options such as floating mortgage of variable assets, mortgage of land contracting operation right and guarantee, which revitalized modern agricultural resources to meet the financing needs of a number of corporates, and also effectively supported the modern agricultural development.

(V) Full support of "three old" redevelopment, helping the reshaping of city

In order to match up with the launch of "three old" redevelopment and speed up the urban renewal of Guangzhou, the Bank specially set up a specialized institution named "City Renewal Center" based on its business foundation laid in village communities. The purpose of the center is to effectively meet the financing needs of the enterprises undertaking the redevelopment and facilitate the implementation of projects.

(VI) Professional team to support the development of leading agricultural enterprises

The Bank has been giving strong financial support to the development of leading agricultural enterprises. By establishing a professional team of high-quality financial talents, the Bank offered credit support to preferred leading agricultural enterprises, listed companies and featured industries to promote the rapid growth of credit assets. As of the end of 2018, the Bank had 22 leading agricultural enterprises in the country, with a credit balance of RMB7,061 million, including seven national leading agricultural enterprises, nine provincial leading agricultural enterprises and three listed company customers. In addition, there was one large-scale agricultural/aquatic product wholesale market customer, with a credit balance of RMB631 million.

(VII) Support of rural revitalization and launch of targeted poverty alleviation

The Bank responded to and implemented the State's rural revitalization strategy by relying on the core position of leading agricultural enterprises, coupled with the Bank's advantages, the Bank fanned out the successful experience gained on key points and endeavoured to form an effective agricultural industry poverty alleviation model with various initiatives, thereby developing good economic benefits and brand effect.

Firstly, the Bank successfully created an industry poverty alleviation model incorporating "Internet + leading agricultural enterprise + base + farmers" by cooperating with YueWang Group, a leading agricultural enterprise, which provided assistance in employment transfer through launching the hundred mu greenhouse vegetable cultivation project. Secondly, the Bank cooperated with villages designated for poverty alleviation to sell special agricultural products online via the "Sun Market" e-mall. Leveraging on the Bank's e-commerce platform to sell the agricultural products of poor farmers, the Bank formed a "e-commerce + agriculture" industry poverty alleviation model and opened up a new territory in poverty alleviation work. Thirdly, the Bank injected RMB316,000 to help 22 poor households complete the renovation of dilapidated houses; injected RMB198,000 to help children of 94 poor households solve their education problems and help 535 poor households implement medical and minimum living security policies; and injected RMB490,000 as relief fund to improve infrastructures, which played a significant role in demonstrating, leading and motivating the comprehensive promotion of rural revitalization.

(VIII) "Internet + Finance" to assist in the development of "Sannong"

1. Online service channels were upgraded and functions of platform products were improved to provide quality online comprehensive financial business

Through the improvement of online service functions (direct-selling banking, mobile banking, online financing and other platforms), the online processing of basic operation, investment and financing services, convenient living services and special scenario financing were achieved, which effectively addressed the problems of few physical outlets in remote rural areas, and inconvenience suffered by the villagers in using financial services. Meanwhile, through establishing an open financial ecological circle, the Bank extended its scope of services and provided the fast speed, convenient and safe internet-based financial services.

2. Mobile payment products were enriched and mobile payment coverage was increased to meet the mobile payment needs in rural areas

The Bank greatly opened up scenarios which were beneficial to farmers and convenient to residents by commencing development of more than 40 projects in respect of key industries and scenarios convenient to residents, launching omni-channel payment and settlement products successively such as "barcode payment, medical insurance online and offline payment, non-tax financial payment, static and dynamic QR code payment" in a bid to provide one-stop order collection services to customers.

In 2018, the Bank launched the "Mobile Payment Smart Public Transportation Project" in Conghua District to enrich the payment function of local private enterprises' public transportation; promoted "smart campus" model in various professional schools and kindergartens in regions such as Zengcheng, Huadou, Nansha, etc. to provide online payment services via electronic channels based on "mobile App"; and launched "smart medical" services with the Bank's medical insurance Internet mobile payment business in Panyu officially in operation. In addition, the Bank also provided payment services to villagers which covered transportation, medical treatment and health, utilities, farmer's market, campus, catering, etc.

II. SANNONG WORK PLAN FOR 2019

In 2019, the Bank will continue to leverage on the foundation of the task of "Realizing Hopes of Thousand Villages and Supporting the Village Community" and practice the concept of "stepping into villages and changing ideas and modes" to vigorously promote the development of financial services in villages. The Bank will promote inclusive finance from four aspects, namely, "policy, product, service and cooperation", so as to actually "serve agriculture, benefit farmers and prosper the rural areas".

(I) Explore new Sannong model and provide assistance in rural revitalization

With the aim of focusing on the financial service needs in the rural revitalization strategy, the Bank intends to place emphasis on exploring the following areas in the next stage in a bid to provide more suitable financial support in rural revitalization and promote integrated development of the primary, secondary and tertiary industries in rural areas. Firstly, supporting new form of agricultural operation; secondly, constructing grass-roots Party building service platform; thirdly, constructing ecologically livable beautiful villages; fourthly, supporting talents revitalization plan in rural areas; fifthly, exploring and supporting the construction of modern agricultural parks; and sixthly, following up pilot projects of rural land circulation proactively in an effort to identify potential businesses.

(II) Strengthen policy guidance and promote the development of agriculture-related businesses

In 2019, the Bank will continue to encourage and support the development of agriculture-related industries, and maintain a certain increase in terms of the size and growth rate of agriculture-related loans by establishing the orientation of agriculture-related credit business from a policy perspective. The Bank will proactively implement the due diligence and liability exemption mechanism regarding financial services involving agriculture and poverty alleviation, pursuant to which, corresponding liabilities are exempted if sufficient evidence shows that the relevant personnel are in compliance with rules and laws and perform duties diligently. The Bank will accelerate the progress of agriculture-related businesses by giving priority to meeting the financing needs of agriculture-related businesses, it will also optimize the credit granting procedures, so as to open up green channels for agriculture-related loans, such that the timeliness of financial services can be ensured.

(III) Vigorously promote the continuous performance of the task of "Realizing Hopes of Thousand Villages and Supporting the Village Community"

In 2019, according to the Bank's plan, at the beginning of the year, various operating organizations shall formulate their visit plan for the whole year, and commence their regular visits. Head office's leaders shall complete visits to key village communities in various districts before the end of the year. Through visits of various levels of the Bank, voices and opinions of people can be heard from all directions, in order to shorten the distance between the Bank and the farmers and enhance service efficiency.

The Bank will fully carry out the "Cultivator Plan • Implementation Plan on Cultivating Sannong Financial Service Commissioners《耕耘者計劃•三農金融服務專員培養實施方案》" and keep selecting and assigning qualified staff to station and serve at village communities, in a bid to fully enhance the rural financial service capability of stationed officers and provide quality financial services for village primary-level organizations and villagers in a better manner, thereby further achieving a win-win situation in terms of cooperation between the Bank and villages.

On the basis of the current situation, the Bank will continue to focus on the rural economy and continue to publish "Cuckoo•Village Journal (布穀•村社專輯)" aiming on issues in various districts and towns. The journal is for the reference of internal operations but will also be distributed in all villages in the cities, focusing on the construction of new rural area and the development of rural economy from the perspective of a commercial bank.

In 2019, the Bank will continue to push forward the growth of the "Thousand Villages Football" brand. The Bank will maintain its media promotion in order to increase exposure of the brand, and, through the influence of "Thousand Villages Football", organize and support relevant sports activities in a moderate manner, and help the Bank's "Thousand Villages" brand and the philosophy of the "Six-One" project under the village community business receive further awareness and recognition from the society and the villagers.

The Bank will continue to rely on the "Sun Market" to build an e-commerce sales and service network for special agricultural by-products centering on the upstream and downstream parts of the rural industrial chain. Meanwhile, leveraging on the support of the Internet financial platforms, the Bank will continue to build the Internet medical service platform, transportation service platform in an effort to better meet the comprehensive financial and living needs such as "medicine, food, housing and transportation" of urban and rural residents.

The Bank will continue to push forward the work of the "village construction" project. In light of the Sun Charity Foundation's annual charity plan, the Bank will continuously carry out such activities as offering assistance to the village communities, promoting the traditional culture of the village communities and delivering care and consolation to the elderly during community festivals. The Bank will also continue to promote the implementation of village construction projects by making full use of resources such as annual village construction funds to support the new rural construction.

(IV) Expand channels benefitting farmers and improve the construction of online and offline service channels

In 2019, in respect of village communities not yet equipped with outlets and self-service equipment, the Bank will continue to improve the development of electronic channel services and continue to increase its efforts in repairing and rebuilding old outlets as well as providing self-service equipment in villages. By deepening the development of village payment services and perfecting the mobile payment infrastructure in rural areas, payment by villagers will become more convenient and safer, which will greatly improve the payment experience in rural areas.

(V) Strongly support the "three old" redevelopment in the region

With the strong support on the financing needs of the village communities and other customers for the "three old" redevelopment, the Sannong customer base will be consolidated. In addition, the Bank will implement the information gathering system for key projects of village communities in Guangzhou, such that the information about the "three old" redevelopment can be controlled in a timely manner, and the big data management of key projects can be achieved. By formulating short-term and medium- to long-term goals, providing normal services, focusing on key projects, and grasping full control of the progress, the Bank strives to market the "three old" redevelopment.

(VI) Respond to "Thousand Enterprises Help Thousand Villages (千企幫千村)", explore new model in targeted poverty alleviation

The Bank earnestly implements strategic deployment in rural revitalization and targeted poverty alleviation by proactively responding to the call of the "Thousand Enterprises Help Thousand Villages" campaign, taking the initiative in exploring new assistance measures and new model of targeted poverty alleviation that are innovative and with characteristics, in an effort to promote the sound and effective commencement of poverty alleviation work and achieve a win-win situation in terms of the Bank's business revenue and good social benefits.

Firstly, the Bank will proactively introduce local leading agricultural enterprises in its operating area to carry out industrial poverty alleviation work by capitalizing on its platform advantage, in order to ensure the poor would not return to poverty after overcoming it and develop a financial targeted poverty alleviation benchmark project and an exemplary project in industrial poverty alleviation. Secondly, the Bank will provide e-commerce services for designated poverty alleviation villages, and promote local specialty products to customers through online display, sale and other manners, in a bid to fully leverage on the innovative and leading role of "Sun Market" e-commerce platform in tackling poverty alleviation. Thirdly, in respect of offline experience, the Bank will establish a "shops – customers – financial products" business chain with a view to deeply developing a new mode of helping farmers through e-commerce with online and offline support and integration, thereby striving to achieve innovation and transformation in stable development. Fourthly, the Bank will implement the "Bellwethers in Creating Wealth" cultivation project, which plays a significant role in demonstrating, leading and motivating the comprehensive promotion of rural revitalization.

(VII) Continue to carry out welfare activities

In 2019, the Bank will continue to duly implement the activity direction of "the last mile in carrying out welfare activities deeply in village communities", continue to expand the funds devoted in welfare activities in order to cover more poor people.

1. Promoting villages' traditional culture and intangible cultural heritage. By means of sponsorship, joint organization, cooperation, etc., the Bank will provide support to village communities in organizing traditional cultural activities. Sponsored projects include but not limited to activities during Dragon Boat Festival, Birth of Boluo (菠蘿誕), Qiqiao Festival, etc.

2. Helping village communities eagerly by respecting the elderly and poverty alleviation. The Bank pays attention to and helps the underprivileged and the elderly in villages through the Sun Charity Foundation, including but not limited to giving consolation funds to and installing "emergency alarm system" for the elderly with no family in village communities; donating funds to people in exceptional poverty in village communities, etc.

3. Supporting "village community construction" projects, including but not limited to repair and renovation of village community public facilities, such as parks, cultural centers, sports venues, reading rooms, bulletin boards, etc., and purchase and renovation of public cultural and sports equipment in village communities.

(VIII) Fully promote product innovation and system integration

Firstly, under the background of inclusive finance and rural revitalization, and on the basis of continuous optimization of existing products, the Bank will look into the needs of village communities and villagers, explore innovative and new credit granting and servicing products involving and benefitting farmers. Secondly, relevant products of the Bank's corporate, retail and financial market business sectors will be integrated by focusing on enhancing the comprehensive customer service capability and the coordinating ability among sectors, so as to provide comprehensive financial services to Sannong customer groups. Thirdly, by further enhancing the efforts in product marketing and promotion, customizing advertising slogans suitable for Sannong customer groups, the Bank strives to increase its publicity coverage in a bid to expand its market share.

To the Shareholders of Guangzhou 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 Guangzhou Rural Commercial Bank Co., Ltd. (the "Bank") and its subsidiaries (the "Group") set out on pages 133 to 290, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss 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.

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 follow:

- Measurement of expected credit losses for loans and advances to customers and financial investments measured at amortized costs; and
- Consolidation of structured entities.

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and financial investments measured at amortized costs	
Refer to note 2, note 3, note 21 and note 24 to the consolidated financial statements. As at 31 December 2018, the Group's gross loans and advances to customers amounted to RMB377,989 million, and a loss allowance of RMB13,021 million was recognized in the Group's consolidated statement of financial position; and the gross balance of financial investments measured at amortized costs amounted to RMB80,660 million, with a loss allowance of RMB301 million. The impairment losses on loans and advances to customers and reversal of provision for financial investments measured at amortized costs recognized in the Group's consolidated statement of profit or loss for the year ended 31 December 2018 amounted to RMB5,018 million and RMB196 million, respectively. International Financial Reporting Standard 9: Financial Instruments ("IFRS 9" or "the standard") is a new and complex accounting standard effective from 1 January 2018.	Our audit procedures relating to ECL for loans and advances to customers and financial investments measured at amortized cost are as follows: We understood, evaluated and tested the internal controls relating to the measurement of ECL for loans and advances to customers and financial investments measured at amortized costs, primarily including: – The selection, approval and application of ECL modelling methodology; and the internal controls relating to the ongoing monitoring and optimization of the models; – Internal controls relating to significant management judgements and assumptions over ECL models, including the review and approval of portfolio segmentation, model selections, parameters estimation, significant increase in credit risk, and defaults or credit-impaired, forward-looking measurement;

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed the Key Audit Matter</th></tr>
<tr><td colspan="2">Measurement of expected credit losses for loans and advances to customers and financial investments measured at amortized costs</td></tr>
<tr><td>Following the requirements of IFRS 9, management applied expected credit losses ("ECL") models and made the best estimation of ECL for loans and advances to customers and financial investments measured at amortized costs at 1 January 2018 (the effective date of the standard) and the reporting date. The Group assesses whether the credit risk of loans and advances to customers and financial investments measured at amortized costs have increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their ECL. For corporate loans and financial investments measured at amortized costs classified into stages I and II, and all personal loans, 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. For corporate loans and financial investments measured at amortized costs in stage III, the management assesses loss allowance by estimating the cash flows from the loans and financial investments.

The measurement models of expected credit losses involve significant management estimations and judgements, primarily including the following:

(1) Segmentation of business operations sharing similar credit risk characteristics, selection of appropriate models and determination of relevant key measurement parameters;</td><td>– Internal controls over the accuracy and completeness of key inputs used by the models;

– Internal controls relating to estimated future cash flows and calculations of present values of such cash flows for corporate loans and financial investments measured at amortized cost in stage III; and

– Internal controls over the information systems for model-based calculation.

The substantive procedures we preformed, primarily including:

– With our internal ECL modelling specialists' assistance, 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 the management;

– We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's identification of significant increase in credit risk, defaults and credit-impaired;</td></tr>
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<tr><th>Key Audit Matter</th><th>How our audit addressed the Key Audit Matter</th></tr>
<tr><td colspan="2">Measurement of expected credit losses for loans and advances to customers and financial investments measured at amortized costs</td></tr>
<tr><td>(2) Criteria for determining whether or not there was a significant increase in credit risk, or a default or credit-impaired incurred;

(3) Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; and

(4) The estimated future cash flows for corporate loans and financial investments measured at amortized costs in stage III.

Considering the material balances of loans and advances to customers and financial investments measured at amortized costs, significant management estimations and judgements, and complex models involved for impairment assessment, we identified this as a key audit matter.</td><td>– With the support from our internal ECL modelling specialists, we assessed the forward-looking information in ECL models used by management, including reviewing management's selection of economic indicators, economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic scenarios' weightings;

– We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness; and

– For corporate loans and financial investments measured at amortized costs in stage III, we examined, on a sample basis, the reasonableness of the forecasted future cash flows prepared by management, including forecasted cash flow and discount rates, etc. from financial information of borrowers and guarantors, latest collateral valuations, and other available information.

Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of expected credit losses for loans and advances to customers and financial investments measured at amortized costs, the models, key parameters, significant judgement and assumptions adopted by management and the measurement results were considered acceptable.</td></tr>
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Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation of structured entities	
Refer to note 2, note 3 and note 43 to the consolidated financial statements. As at 31 December 2018, the Group has managed and invested in various structured entities, such as wealth management products, trust plans and asset management plans. The Group determined whether to consolidate these structured entities based on their assessment whether the Group has control, taking into consideration the power arising from rights, variable returns, and link between power and returns. The assessment of the Group's control over structured entities involves significant judgement on factors such as the purpose and design of structured entities, its ability to direct the relevant activities, direct and indirect beneficial interests and returns, performance fee, remuneration and exposure to loss from providing credit enhancement or liquidity support. The comprehensive analysis over these factors and the conclusion of the control in place or not, involved significant judgements and estimations. Due to the significance of the structured entities and the complexity of judgement exercised by management, whether to consolidate these structured entities is considered a key audit matter.	Our procedures in relation to consolidation of structured entities included: – Understood the process and relevant controls over the assessment and disclosures of consolidation of structured entities; – Assessed the management's accounting policies about control and the application consistency of these accounting policies, which included the assessment of the Group's power, variable returns from its involvement with, and its ability to use its power to affect the amount of its return from structured entities; – Reviewed the relevant term sheets and the corresponding supporting documents on a sample basis to assess whether the Group had legal or constructive obligation to absorb any loss of the structured entities, and whether the Group has provided liquidity support or credit enhancement to the structured entities, so as to evaluate the Group's controls over the structured entities; and – Understood and evaluated the appropriateness of disclosures in the consolidated financial statements relating to structure entities. Based on the procedures we have performed and the evidence obtained, we found the management's judgement on consolidation of structured entities was supportable.

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.

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.

- 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 Zee, Ho Sum.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Year ended 31 December 2018	2017
Interest income	6	**29,445,584**	29,186,446
Interest expense	6	**(16,173,934)**	(17,491,919)
Net interest income		**13,271,650**	11,694,527
Fee and commission income	7	**1,813,220**	2,568,556
Fee and commission expense	7	**(265,700)**	(277,169)
Net fee and commission income		**1,547,520**	2,291,387
Net trading gains	8	**4,537,202**	1,299,396
Net gains/(losses) on financial investments	9	**648,937**	(1,639,034)
Other income, gains or losses	10	**661,359**	(167,616)
Operating income		**20,666,668**	13,478,660
Operating expenses	11	**(5,984,334)**	(5,164,194)
Credit impairment losses	13	**(5,829,923)**	N/A
Impairment losses on other assets	13	**(139,019)**	N/A
Impairment losses on assets	13	**N/A**	(787,851)
Profit before income tax		**8,713,392**	7,526,615
Income tax expense	14	**(1,881,229)**	(1,635,624)
Profit for the year		**6,832,163**	5,890,991
Attributable to:			
Shareholders of the Bank		**6,526,337**	5,708,718
Non-controlling interests		**305,826**	182,273
		6,832,163	5,890,991
Earnings per share (RMB yuan)			
– basic and diluted	16	**0.67**	0.63

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

	Year ended 31 December	
	2018	2017
Profit for the year	**6,832,163**	5,890,991
Other comprehensive income (after tax, net):		
Other comprehensive income to be reclassified to profit or loss in subsequent years:		
Net losses on available-for-sale financial assets	**N/A**	(1,309,889)
Fair value changes on financial assets at fair value through other comprehensive income	**2,026,661**	N/A
Expected credit losses of financial assets at fair value through other comprehensive income	**376,924**	N/A
Other comprehensive income not to be reclassified to profit or loss in subsequent years:		
Remeasurement (losses)/gains on defined benefit plans	**(83,045)**	34,350
Subtotal of other comprehensive losses for the year	**2,320,540**	(1,275,539)
Total comprehensive income for the year	**9,152,703**	4,615,452
Total comprehensive income attributable to:		
Shareholders of the Bank	**8,849,900**	4,433,179
Non-controlling interests	**302,803**	182,273
	9,152,703	4,615,452

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	31 December 2018	31 December 2017
ASSETS			
Cash and deposits with central bank	17	**101,589,714**	103,767,440
Deposits with banks and other financial institutions	18	**10,866,562**	14,443,630
Placements with banks and other financial institutions	19	**15,299,113**	6,606,541
Reverse repurchase agreements	20	**29,338,950**	76,393,395
Loans and advances to customers	21	**364,967,971**	285,701,697
Financial investments			
– Financial assets at fair value through profit or loss	22	**89,797,155**	15,270,181
– Financial assets at fair value through other comprehensive income	23	**57,697,751**	N/A
– Financial assets at amortized cost	24	**80,358,225**	N/A
– Available-for-sale financial assets	25	**N/A**	68,876,564
– Held-to-maturity investments	26	**N/A**	59,902,988
– Investment classified as receivables	27	**N/A**	90,919,325
Property and equipment	28	**2,381,741**	2,012,502
Goodwill	29	**258,056**	382,216
Deferred tax assets	30	**3,542,727**	3,634,745
Other assets	31	**7,191,632**	7,802,436
Total assets		**763,289,597**	735,713,660
LIABILITIES			
Due to the central bank		**2,702,904**	1,130,600
Deposits from banks and other financial institutions	32	**63,215,965**	43,470,165
Placements from banks and other financial institutions	33	**1,553,583**	3,572,433
Repurchase agreements	34	**11,817,776**	23,829,470
Customer deposits	35	**542,335,162**	488,671,856
Income tax payable		**1,448,438**	563,686
Debt securities issued	36	**65,875,435**	101,383,777
Other liabilities	37	**18,759,266**	24,613,954
Total liabilities		**707,708,529**	687,235,941

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	31 December 2018	31 December 2017
EQUITY			
Share capital	38	**9,808,269**	9,808,269
Reserves	39	**25,775,261**	21,121,839
Retained earnings		**17,277,797**	15,114,407
Equity attributable to shareholders of the Bank		**52,861,327**	46,044,515
Non-controlling interests		**2,719,741**	2,433,204
Total equity		**55,581,068**	48,477,719
Total liabilities and equity		**763,289,597**	735,713,660

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

The consolidated financial statements were approved by the Board of Directors on 28 March 2019 and were signed on its behalf by:

Wang Jikang	**Peng Zhijun**	**Ding Bin**
Chairman	*Head in Charge of Finance Function*	*Head of Financial Department*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

	Attributable to shareholders of the Bank										
		Reserves									
	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Remeasurement gains/(losses) on defined benefit plans	Subtotal	Retained earnings	Total	Non-Controlling interests	Total
Balance at 1 January 2018	9,808,269	10,581,739	3,777,432	8,718,218	(2,023,717)	68,167	21,121,839	15,114,407	46,044,515	2,433,204	48,477,719
Impact on accounting policy changes	–	–	–	–	699,135	–	699,135	(1,049,825)	(350,690)	(95,932)	(446,622)
Restated balance at 1 January 2018	9,808,269	10,581,739	3,777,432	8,718,218	(1,324,582)	68,167	21,820,974	14,064,582	45,693,825	2,337,272	48,031,097
Net profit for the year	–	–	–	–	–	–	–	6,526,337	6,526,337	305,826	6,832,163
Other comprehensive income for the year	–	–	–	–	2,406,608	(83,045)	2,323,563	–	2,323,563	(3,023)	2,320,540
Total comprehensive income	–	–	–	–	2,406,608	(83,045)	2,323,563	6,526,337	8,849,900	302,803	9,152,703
Capital contributed by non-controlling shareholders	–	–	–	–	–	–	–	–	–	130,000	130,000
Shareholders' donation	–	279,256	–	–	–	–	279,256	–	279,256	23,813	303,069
Appropriation to surplus reserve	–	–	621,141	–	–	–	621,141	(621,141)	–	–	–
Dividends declared and paid	–	–	–	–	–	–	–	(1,961,654)	(1,961,654)	(74,147)	(2,035,801)
Appropriation to general reserve	–	–	–	730,327	–	–	730,327	(730,327)	–	–	–
Balance at 31 December 2018	9,808,269	10,860,995	4,398,573	9,448,545	1,082,026	(14,878)	25,775,261	17,277,797	52,861,327	2,719,741	55,581,068

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

	Attributable to shareholders of the Bank										
		Reserves									
	Share capital	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Remeasurement gains on defined benefit plans	Subtotal	Retained earnings	Total	Non-Controlling interests	Total
Balance at 1 January 2017	8,153,419	4,839,809	3,200,146	8,020,433	(713,828)	33,817	15,380,377	12,311,444	35,845,240	1,994,463	37,839,703
Net profit for the year	–	–	–	–	–	–	–	5,708,718	5,708,718	182,273	5,890,991
Other comprehensive income for the year	–	–	–	–	(1,309,889)	34,350	(1,275,539)	–	(1,275,539)	–	(1,275,539)
Total comprehensive income	–	–	–	–	(1,309,889)	34,350	(1,275,539)	5,708,718	4,433,179	182,273	4,615,452
Acquisition of non-controlling interests	–	(32,199)	–	–	–	–	(32,199)	–	(32,199)	(31,601)	(63,800)
Shareholders' donation	–	173,172	–	–	–	–	173,172	–	173,172	–	173,172
Issuance of shares	1,654,850	5,600,957	–	–	–	–	5,600,957	–	7,255,807	–	7,255,807
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	329,553	329,553
Appropriation to surplus reserve	–	–	577,286	–	–	–	577,286	(577,286)	–	–	–
Dividends declared and paid	–	–	–	–	–	–	–	(1,630,684)	(1,630,684)	(41,484)	(1,672,168)
Appropriation to general reserve	–	–	–	697,785	–	–	697,785	(697,785)	–	–	–
Balance at 31 December 2017	9,808,269	10,581,739	3,777,432	8,718,218	(2,023,717)	68,167	21,121,839	15,114,407	46,044,515	2,433,204	48,477,719

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended 31 December 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Year ended 31 December 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**8,713,392**	7,526,615
Adjustments for:			
Depreciation and amortisation	11	**563,688**	513,965
Depreciation of investment properties		**22,759**	22,179
Net trading gains		**(2,842,141)**	(1,299,396)
Interest income on financial investments		**(6,187,427)**	(10,319,369)
Impairment losses	13	**5,968,942**	787,851
Foreign exchange (gains)/losses		**(200,918)**	194,189
Interest expense on debt securities	6	**3,895,244**	5,378,132
Interest income accrued on impaired financial assets		**(56,433)**	(88,050)
Net (gains)/losses on financial investments	9	**(648,937)**	1,639,034
Net (gains)/losses on disposal of property and equipment		**(10,448)**	33,033
		9,217,721	4,388,183
Net decrease/(increase) in operating assets:			
Balances with central bank		**9,839,066**	(12,809,794)
Deposits with banks and other financial institutions		**1,641,847**	4,451,691
Placements with banks and other financial institutions		**(7,748,314)**	(1,812,904)
Reverse repurchase agreements		**8,894,487**	(1,541,952)
Loans and advances to customers		**(84,602,396)**	(47,099,734)
Net increase in financial assets at fair value through profit or loss		**(23,889,068)**	–
Other assets		**(2,429,241)**	(336,955)
		(98,293,619)	(59,149,648)
Net increase/(decrease) in operating liabilities:			
Due to the central bank		**1,548,720**	593,600
Deposits from banks and other financial institutions		**19,136,967**	9,887,535
Placements with banks and other financial institutions		**(1,974,931)**	1,839,216
Repurchase agreements		**(12,022,220)**	(24,768,326)
Customer deposits		**45,126,375**	59,422,746
Other liabilities		**5,794,649**	3,306,650
		57,609,560	50,281,421
Net cash flows used in operating activities before tax		**(31,466,338)**	(4,480,044)
Income tax paid		**(1,556,780)**	(2,210,906)
Net cash flows used in operating activities		**(33,023,118)**	(6,690,950)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended 31 December 2018
(All amounts expressed in thousands of RMB unless otherwise stated)

	Note	Year ended 31 December 2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment and other long-term assets		**(2,288,105)**	(500,163)
Proceeds from disposal of property and equipment and other long-term assets		**39,061**	158,794
Cash paid for investments		**(52,228,804)**	(338,635,400)
Proceeds from sale and redemption of investments		**88,859,280**	330,092,613
Acquisition of a subsidiary		**–**	130,575
Return on investments		**8,916,953**	9,301,309
Net cash flows from investing activities		**43,298,385**	547,728
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of shares		**–**	7,255,807
Acquisition of non-controlling shareholders		**–**	(63,800)
Capital contributed by non-controlling shareholders		**130,000**	–
Shareholders' donation		**303,693**	140,911
Proceeds from issuance of debt securities		**81,074,499**	186,237,340
Repayment of debt securities issued		**(119,833,635)**	(178,243,275)
Interest paid on debt securities		**(1,994,724)**	(4,377,526)
Dividends paid on ordinary shares		**(1,961,654)**	(1,630,684)
Dividends paid on non-controlling shareholders		**(74,147)**	(40,789)
Net cash flows (used in)/from financing activities		**(42,355,968)**	9,277,984
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(32,080,701)**	3,134,762
Cash and cash equivalents at the beginning of the year		**109,247,230**	106,196,081
Effect of exchange rate changes on cash and cash equivalents		**153,088**	(83,613)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	41	**77,319,617**	109,247,230
NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE:			
Interest received		**24,071,293**	18,721,244
Interest paid		**(9,704,458)**	(11,887,046)

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

1 CORPORATE INFORMATION AND STRUCTURE

Guangzhou Rural Commercial Bank Co., Ltd. (the "Bank"), whose predecessor was established in 1952, underwent a series of reforms in subsequent years. Under the "Approval Regarding the Opening of Guangzhou Rural Commercial Bank Co., Ltd." (Yinjianfu No. [2009]484) issued by the China Banking Regulatory Commission ("CBRC", which was renamed to China Banking Insurance Regulatory Commission (the CBIRC) in 2018), Guangzhou Rural Commercial Bank Co., Ltd. was incorporated on 9 December 2009.

The Bank obtained its finance permit No.B1048H244010001 from the CBIRC and its business license of Unified Social Credit code No.914401017083429628 from the Administration for Industry and Commerce of Guangzhou Municipality. The legal representative is Wang Jikang and the registered office is located at No.9 Yingri Road, Huangpu District, Guangzhou, the PRC.

On 20 June 2017, the Bank was listed on The Stock Exchange of Hong Kong Limited.

The Bank and its subsidiaries (the "Group") conducts its operating activities in the PRC.

The principal activities of the Bank comprise taking deposits from the general public (including domestic and foreign currency), granting short, medium and long-term loans (including domestic and foreign currency), domestic and international settlements, bills acceptance and discounting, providing agency services for issuing/redemption and underwriting of government bonds, trading government bonds, trading and issuing financial bonds, inter-bank placements (including domestic and foreign currency), bank cards (including debit cards and credit cards) business, providing agency services of payment collection and insurance agency service, providing safe locker service, foreign currency remittance, foreign currency exchange, settlement and sale of foreign exchange, foreign credit investigations, advisory and attestation service, fund and insurance assets trusteeship, financing services, fund consignment business, e-bank services, securitization of credit assets, and other financial business activities approved by the CBIRC or other relevant regulators.

As at 31 December 2018, the Bank had a total of 27 subsidiaries, including 25 county banks, a financial leasing company and a rural commercial bank across China.

The consolidated financial statements were authorized for issue by the Board of Directors of the Bank on 28 March 2019.

1 CORPORATE INFORMATION AND STRUCTURE (CONTINUED)

The Bank and its subsidiaries are collectively referred to as the "Group". As at 31 December 2018, the Bank had a total of 27 subsidiaries, including 25 county banks, a financial leasing company and a rural commercial bank, which are located in Guangdong, Shandong, Jiangsu, Hunan, Henan, Sichuan, Liaoning, Jiangxi and Beijing. The details of the Bank's subsidiaries as at 31 December 2018 are as follows:

Name	Place of registration	Registered capital (in thousands)		Percentage of equity interests held by the Bank		Percentage of voting rights held by the Bank		Principal activities
		2018-12-31	2017-12-31	2018-12-31	2017-12-31	2018-12-31	2017-12-31	
Laiwu Zhujiang County Bank	Laiwu, Shandong Province	60,000	60,000	51.00%	51.00%	51.00%	51.00%	Banking
Jiangsu Xuyi Zhujiang County Bank	Xuyi, Jiangsu Province	50,000	50,000	51.00%	51.00%	51.00%	51.00%	Banking
Jiangsu Qidong Zhujiang County Bank	Qidong, Jiangsu Province	100,000	100,000	51.00%	51.00%	51.00%	51.00%	Banking
Changning Zhujiang County Bank	Changning, Hunan Province	50,000	50,000	51.00%	51.00%	51.00%	51.00%	Banking
Laizhou Zhujiang County Bank	Laizhou, Shandong Province	80,000	80,000	51.00%	51.00%	51.00%	51.00%	Banking
Haiyang Zhujiang County Bank	Haiyang, Shandong Province	70,000	70,000	51.00%	51.00%	51.00%	51.00%	Banking
Huixian Zhujiang County Bank (i)	Huixian, Henan Province	60,000	60,000	35.00%	35.00%	51.00%	51.00%	Banking
Pengshan Zhujiang County Bank (i)	Meishan, Sichuan Province	50,000	50,000	35.00%	35.00%	51.00%	51.00%	Banking
Xinjin Zhujiang County Bank (i)	Xinjin, Sichuan Province	100,000	100,000	35.00%	35.00%	53.00%	53.00%	Banking
Guanghan Zhujiang County Bank (i)	Guanghan, Sichuan Province	100,000	100,000	35.00%	35.00%	51.00%	51.00%	Banking
Dalian Baoshuiqu Zhujiang County Bank (i)	Dalian Bonded Area, Liaoning Province	100,000	100,000	35.00%	35.00%	56.00%	56.00%	Banking
Jizhou Zhujiang County Bank (i)	Jian, Jiangxi Province	87,820	87,820	33.79%	33.79%	57.19%	57.19%	Banking
Heshan Zhujiang County Bank (i)	Heshan, Guangdong Province	150,000	150,000	34.00%	34.00%	71.00%	71.00%	Banking

1 CORPORATE INFORMATION AND STRUCTURE (continued)

Name	Place of registration	Registered capital (in thousands) 2018-12-31	Registered capital (in thousands) 2017-12-31	Percentage of equity interests held by the Bank 2018-12-31	Percentage of equity interests held by the Bank 2017-12-31	Percentage of voting rights held by the Bank 2018-12-31	Percentage of voting rights held by the Bank 2017-12-31	Principal activities
Beijing Mentougou Zhujiang County Bank	Mentougou District, Beijing	100,000	100,000	51.00%	51.00%	51.00%	51.00%	Banking
Xinyang Zhujiang County Bank (i)	Xinyang, Henan Province	414,200	414,200	39.60%	39.60%	54.13%	54.13%	Banking
Yantai Fushan Zhujiang County Bank	Yantai, Shandong Province	100,000	100,000	93.00%	93.00%	100.00%	100.00%	Banking
Anyang Zhujiang County Bank (i)	Anyang, Henan Province	60,000	60,000	35.00%	35.00%	55.50%	51.00%	Banking
Qingdao Chengyang Zhujiang County Bank (i)	Chengyang District, Qingdao, Shandong Province	100,000	100,000	35.00%	35.00%	51.00%	51.00%	Banking
Suzhou Wuzhong Zhujiang County Bank	Wuzhong District, Suzhou, Jiangsu	150,000	150,000	51.00%	51.00%	51.00%	51.00%	Banking
Sanshui Zhujiang County Bank (i)	Foshan, Guangdong Province	200,000	200,000	33.40%	33.40%	50.50%	50.50%	Banking
Zhongshan Dongfeng Zhujiang County Bank (i)	Dongfeng, Guangdong Province	150,000	150,000	35.00%	35.00%	55.00%	55.00%	Banking
Xingning Zhujiang County Bank (i)	Meizhou, Guangdong Province	50,000	50,000	34.00%	34.00%	100.00%	100.00%	Banking
Shenzhen Pingshan Zhujiang County Bank (i)	Shenzhen, Guangdong Province	300,000	300,000	35.00%	35.00%	83.00%	83.00%	Banking
Dongguan Huangjiang Zhujiang County Bank (i)	Dongguan, Guangdong Province	150,000	150,000	35.00%	35.00%	100.00%	100.00%	Banking
Zhengzhou Zhujiang County Bank (i)	Zhengzhou, Henan Province	200,000	–	35.00%	–	90.00%	–	Banking
Zhuzhou Zhujiang Rural Commercial Bank ("ZZRCB")	Zhuzhou, Hunan Province	600,000	600,000	51.00%	51.00%	61.00%	61.00%	Banking
Zhujiang Financial Leasing Co, Ltd.	Guangzhou, Guangdong Province	1,000,000	1,000,000	100.00%	100.00%	100.00%	100.00%	Financial leasing

(i) The Bank holds less than majority equity interests in these subsidiaries. In accordance with the agreements to act in concert entered into by the Bank and the non-controlling shareholders, the non-controlling shareholders vote consistently with the Bank in deciding the financial and operating policies. Hence, the management of the Bank believes that the Bank has controls over these subsidiaries.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations promulgated by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared on an accrual basis and under the historical cost convention except for financial assets/liabilities at fair value through profit or loss and other comprehensive income and available-for-sale financial assets that have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Bank. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies.

Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if and only if the Bank has:

(a) Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);

(b) Exposure, or rights, to variable returns from its involvement with the investee; and

(c) The ability to use its power over the investee to affect its returns.

When the Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) The contractual arrangement with the other vote holders of the investee;

(b) Rights arising from other contractual arrangements; and

(c) The Group's voting rights and potential voting rights.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of consolidation (continued)

The Bank re-assesses 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 described above. A change in the ownership of a subsidiary without a loss of control, is accounted for as equity transaction. Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the financial statements from the date the Bank gains control until the date the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

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

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

(a) derecognises the assets (including goodwill) and liabilities of the subsidiary;

(b) derecognises the carrying amount of any non-controlling interest;

(c) derecognises the cumulative translation differences recorded in equity;

(d) recognises the fair value of the consideration received;

(e) recognises the fair value of any investment retained;

(f) recognises any resulting surplus or deficit in profit or loss; and

(g) reclassifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated statements of profit or loss, and within equity in the consolidated statement of financial position separately from the equity attributable to equity holders of the parent company. An acquisition of non-controlling interests is accounted for as an equity transaction.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Standards, amendments and interpretations effective in 2018

On 1 January 2018, the Group adopted the following new standards, amendments and interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IAS 40 (Amendments)	Transfers of Investment Property
IFRS 2 (Amendments)	Share-based Payment Transactions
IFRS 4 (Amendments)	Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to IFRSs 2014-2016 Cycle (issued in December 2016): IAS 28	Investments in Associates and Joint Ventures

Amendments to IAS 40 Transfers of Investment Property

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

Amendments to IFRS 2 Share-based Payment Transactions

The IASB issued amendments to IFRS 2 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met.

Amendments to IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Standards, amendments and interpretations effective in 2018 (continued)

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project to replace IAS 39 Financial Instruments. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

Classification and measurement

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

Business model

The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, the financial assets are classified as part of "other" business model. 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.

Characteristics of the contractual cash flows

The assessment of the characteristics of the contractual cash flows aims to identify whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement.

Impairment

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Standards, amendments and interpretations effective in 2018 (continued)

The impacts of transition to IFRS 9

Considering the impact of this standard on the consolidated financial statements, the Group recorded an adjustment to 1 January 2018 shareholders' equity at the adoption date, but did not restate comparative periods. The impact of the Group's adoption of IFRS 9 is disclosed in Note 4.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Standards, amendments and interpretations effective in 2018 (continued)

Annual Improvements to IFRSs 2014-2016 Cycle

Annual Improvements to IFRSs 2014-2016 Cycle was issued in December 2016. The amendments to IAS 28 Investments in Associates and Joint Ventures clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries.

2.3 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2018

		Effective for annual periods beginning on or after
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 January 1, 2016. The effective date has now been deferred/ removed.
IFRIC 23	Uncertainty over Income Tax	1 January 2019
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRSs 2015-2017 cycle	1 January 2019
Amendments to IFRS 9	Prepayment Features with Negative Compensation and Modifications of Financial Liabilities	1 January 2019

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group in 2018 (continued)

IFRS 16

For the lessee, 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 unless the underlying asset is of low value, in the statement of financial position. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the liability in the statement of comprehensive income, and also classify cash repayments of the lease liability into principal portion and an interest portion for presentation in the statement of cash flows.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB1,055 millions, see note 44(b). Some of the commitments may not need recognize relevant assets or liabilities because of short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. The Group expects that the adoption of IFRS 16 will not have a material 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, there will be no significant impact on the financial information.

IFRS 17

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 at each reporting period. Contracts are measured using the building blocks of: discounted probability weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the "variable fee approach" for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the modification reflects that it allows adjustment of contractual service margin for certain change. The results of insurers using this model are therefore likely to be less volatile than under the general model. 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 has not completed its assessment of the impact on the Group's operating results and financial position of adopting IFRS 17.

Except the above mentioned impact of IFRS 16 and IFRS 17, the adoption of the above new IFRSs and amendments to IFRSs issued but not yet effective is not expected to have a material effect on the Group's operating results, financial position or other comprehensive income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies

2.4.1 Foreign currency translation

The consolidated financial statements of the Group are presented in RMB, being the functional and presentation currency of the Bank and its subsidiaries.

Foreign currency transactions are initially recorded at the functional currency using the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable exchange rates ruling at the end of the reporting period. Exchange differences arising on the settlement of monetary items or on translating monetary items at period end rates are recognised in the statement of profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date when the fair value is determined.

2.4.2 Financial instruments

IFRS 9 – Financial Instruments (the "New Financial Instruments Guidelines") came into effect on 1 January 2018. The Group has adopted IFRS 9 with a date of transition of 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 reserves of the current period.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group and details of the specific IFRS 9 accounting policies applied in the current period.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities

(1) Recognition and derecognition

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. When financial assets are purchased in a regular way or sold out, they are recognised on trade-date. 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 the transfer satisfies the new financial instrument guidelines for the derecognition of financial assets. When the current obligations of financial liabilities have been discharged, the Group derecognizes the financial liabilities.

Modification of financial assets

The Group sometimes renegotiates or otherwise modifies financial assets' contract which will change the contractual cash flows of financial assets. When this happens, the Group assessed whether or not the new items are substantially different to the original terms.

If the terms are substantially different, the Group derecognizes the original financial assets and recognises 'new' assets at fair value and remeasures a new effective interest rate for the assets. 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 remeasures 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 remeasured 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). In assessing whether the credit risk of the relevant financial assets has increased significantly, the Group compares the risk of default on the statement of financial position based on the changed contract terms with the risk of default based on the original contract terms at initial recognition.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(1) Recognition and derecognition (continued)

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognized 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 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:

(i) has no obligation to make payments unless it collects equivalent amounts from the assets;

(ii) is prohibited from selling or pledging the assets; and

(iii) 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 derecognized 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. This also applies to certain securitization transactions in which the Group retains a subordinated residual interest.

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 carrying amount of the transferred asset and associated liability is: (a) the amortized cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortized 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(2) Classification and measurement

At initial recognition, the Group measures financial assets or financial liabilities at its fair value plus or minus, in the case of financial assets or financial liabilities not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

When there is a difference between the fair value and the transaction cost at the initial recognition of a financial asset or financial liability, the Group distinguishes between the following:

(a) At initial recognition, the fair value of a financial asset or financial liability is determined based on the quotation of the same asset or liability in an active market or valuation techniques using only observable market data, the difference between the fair value and the transaction cost is recognised as a gain or loss.

(b) In the initial recognition, if the fair value of financial assets or financial liabilities is determined in other ways, the difference between the fair value and the transaction cost is deferred. After the initial recognition, the deferred difference is recognised as the gain or loss of the corresponding accounting period based on the degree of change in a factor in the corresponding accounting period. This factor should be limited to factors that market participants will consider when pricing the financial instrument, including time.

Fair value

Fair value refers to the price that a market participant can receive from sell an asset or transfer a liability in an orderly transaction that occurs on the balance sheet 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. At the time of valuation, the Group adopts valuation techniques that are applicable under current circumstances and that are sufficiently supported by data and other information, and inputs that are consistent with the characteristics of assets or liabilities considered by market participants in transactions in related assets or liabilities. These valuation techniques maximise the use of observable market data where it is available.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(2) Classification and measurement (continued)

Financial assets

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following measurement categories:

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

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

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 and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(2) Classification and measurement (continued)

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as placements with banks and other financial institutions, financial assets purchased under resale agreements, loans and government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

(i) the Group's business model for managing the asset; and

(ii) the cash flow characteristics of the asset.

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

(i) Amortized cost;

(ii) Fair value through other comprehensive income (FVOCI); or

(iii) Fair value through profit or loss (FVPL).

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. Factors considered by the Group in determining the business model of a set of financial assets include how the cash flows of the Group were collected in the past, how the Group's performance was assessed and reported to key management personnel, how the risks were assessed and managed, and the way the business managers are paid.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(2) Classification and measurement (continued)

Debt instruments (continued)

SPPI: 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 (the 'SPPI test'). 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 lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by expected credit losses allowance. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). 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 recognised in 'Investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(2) Classification and measurement (continued)

Debt instruments (continued)

- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss.

The Group reclassifies debt investments if and only if its business model for managing those assets changes. The reclassification takes place from the beginning of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

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

(a) Purchased or originated credit-impaired ('POCI') financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not 'POCI' but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit losses allowance).

Equity instruments

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.

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. 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. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the statement of profit or loss.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(2) Classification and measurement (continued)

Financial liabilities

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, whereby 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;

- Financial guarantee contracts and loan commitments.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.1 Financial assets and financial liabilities (continued)

(3) Impairment

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 the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL 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.

(4) Offset

The Group shows financial assets and financial liabilities separately in the statement of financial position and may not offset each other, except for:

(i) The Group has a statutory right to offset the confirmed amount and the legal right is now enforceable;

(ii) The Group plans to settle the net assets or realize the financial assets and liquidate the financial liabilities at the same time.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.2 *Financial guarantee contracts and loan commitments*

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 expected credit loss allowance (calculated as described in Note 2.4.2.1(3)); and

- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the ECL allowance. 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 ECL allowance is recognised as a provision. However, for contracts that include both a loan and an unused commitment and the Group cannot separately identify provision of unused commitment component from the loan component, the ECL on the unused commitment are recognised together with the ECL allowance for the loan. Provided that the combined ECL exceed the gross carrying amount of the loan, the ECL are recognised as provisions.

2.4.2.3 *The accounting policies adopted during the comparative period*

(1) Recognition and derecognition

The Group recognises a financial asset or a financial liability at the time the Group becomes a party to the contractual obligation of financial instruments.

Financial assets are derecognized when:

(a) the contractual rights to receive cash flows from the financial asset have expired;

(b) the contractual rights to receive cash flows from the financial asset have been transferred, and the Group has transferred nearly all the risks and rewards of ownership of the financial asset to the transferee;

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.3 The accounting policies adopted during the comparative period (continued)

(1) Recognition and derecognition (continued)

(c) the Group transfers the financial asset to another party, but maintains the contractual rights to receive cash flows from the financial asset and undertaken the obligations to pay the cash flow it received to the final recipient, and meets the three conditions at the same time (the requirement of "pass-through"), and transferred nearly all the risks and rewards of ownership of the financial asset to the transferee.

– The Group is not obliged to make any payment to the final recipient until it receives the cash flow which is equivalent to the financial asset. For any short-term payment made by the enterprise on behalf of others, if the enterprise has the right to recover the full amount of the payment and charge interests according to the market bank loan interest rate of the same period, the conditions shall be deemed to have been satisfied.

– In accordance with the contractual stipulations, the Group cannot sell the financial asset or use it as a guaranty, but it may use it as an guarantee for paying the cash flow to the final recipient

– Has an obligation to remit any cash it collects from the assets without material delay.

(d) the financial asset has been transferred (the contractual right to receive the cash flow of the financial asset has been transferred or meet the requirement of "pass-through"). Though the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it has not retained control of the asset.

On derecognition of a financial asset, the difference between the carrying amount and the considerations received together with the accumulated change of fair value recorded in equity through other reserves is recognised in profit or loss.

If the obligation relating to a financial liability has been partially or fully discharged, the financial liability is derecognized partially or in full. If the existing financial liability is replaced by the same creditor with another financial liability that is with substantially different terms, or if the terms of the existing liability are substantially revised, such replacement or revision is accounted for as derecognition of the original liability and recognition of a new liability, and the difference is recognised in profit or loss.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.3 The accounting policies adopted during the comparative period (continued)

(2) Classification and measurement of financial assets

Financial assets are, on initial recognition, classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Group determines the classification of the financial assets on initial recognition. Financial assets are recognised at fair value on initial recognition. For financial assets at fair value through profit or loss, relevant transaction costs are directly charged to the profit or loss. Transaction costs relating to financial assets in other categories are included in the initial recognised amount.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated at fair value through profit or loss upon initial recognition.

A financial asset held for trading is the financial asset that satisfies one of the following conditions:

1) the financial asset is acquired for the purpose of selling in the near term;

2) the financial asset is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the Group has a recent actual pattern of short-term profit-taking; or

3) It is a derivative, except for a derivative that is designated as effective hedging instrument, or a financial guarantee contract, or a derivative linked to investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

These financial assets are subsequently measured at fair value. Changes of fair value are recognised in profit or loss. Interest accrued during the assets holding period, dividend received and gains or loss arising from disposal are recognised in profit and loss.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.3 The accounting policies adopted during the comparative period (continued)

(2) Classification and measurement of financial assets (continued)

Held-to-maturity investments

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the positive intention and the ability to hold to maturity.

Held-to-maturity investments shall be measured at amortized cost using the effective interest rate method.

Except for specific situations such as disposal of insignificant amount of held-to-maturity investments at a date sufficiently close to maturity date, if the Group fails to hold such investments through their maturities or reclassifies a portion of held-to-maturity investments into available-for-sale prior to their maturities, the Group shall reclassify all held-to-maturity investments into available-for-sale category measured at fair value. The Group is further prohibited to reclassify these financial assets as held-to-maturity during the current financial year or the two preceding financial years.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. When the Group provides funds or services directly to customers without the intention to sell the receivables, the Group classifies such financial assets as loans and receivables. Subsequently, such financial assets are measured at amortized cost using effective interest method.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.3 The accounting policies adopted during the comparative period (continued)

(2) Classification and measurement of financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) financial assets at fair value through profit or loss, (b) loans and receivables or (c) held-to-maturity investments.

Available-for-sale financial assets are measured at fair value. For available-for-sale debt instruments, premium or discount is amortized using effective interest method and recognised as interest income or expense. A gain or loss arising from changes in fair value of an available-for-sale financial asset is recognised in a separate component of equity, except for impairment losses and foreign exchange gains and losses resulting from monetary financial assets, until the financial asset is derecognized or is determined to be impaired. At this time, the cumulative gain or loss previously recognised in equity shall be reclassified to profit or loss.

Dividends and interests relating to an available-for-sale financial asset are recognised in profit or loss.

(3) Classification and measurement of financial liabilities

Financial liabilities of the Group are, upon initial recognition, classified into financial liabilities at fair value through profit or loss and other financial liabilities. The Group determines the classification of the financial liabilities on initial recognition. For financial liabilities at fair value through profit or loss, relevant transaction costs are directly recognised in profit or loss, and transaction costs relating to other financial liabilities are included in the initially recognised amount.

Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using effective interest method on the financial reporting date.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.3 The accounting policies adopted during the comparative period (continued)

(4) Equity instruments

An equity instrument is a contract that demonstrates the residual interest in the assets of the Group after deducting all liabilities.

An instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met.

(a) The instrument includes no contractual obligation:

(i) to deliver cash or another financial asset to another entity; or

(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

(b) If the instrument will or may be settled in the issuer's own equity instruments, it is:

(i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or

(ii) a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Other equity instruments issued by the Group are recognised at the amount actually received, minus the transaction costs directly attributable to equity transactions. The distribution of dividends during the existence of other equity instruments shall be treated as profit distribution.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.3 The accounting policies adopted during the comparative period (continued)

(5) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes listed equity securities and quoted debt instruments on major exchanges.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used techniques by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

(6) Impairment of financial assets

The Group assesses at each financial reporting date whether there is any objective evidence that a financial asset or a group of financial assets excluding those fair valued through profit or loss is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or a group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulties of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group's granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.3 The accounting policies adopted during the comparative period (continued)

(6) Impairment of financial assets (continued)

- it's becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including: 1) adverse changes in the payment status of borrowers in the Group; 2) national or local economic conditions that correlate with defaults on the assets in the Group;
- any significant change with an adverse effect that has taken place in the technological, market, economic or legal environment in which the issuer operates and indicates that the cost of investments in equity instruments may not be recovered;
- a significant or prolonged decline in the fair value of an equity instrument; or
- other objective evidence indicating impairment of the financial asset.

Financial assets carried at amortized cost

When there is an objective evidence that a financial asset is impaired, the carrying amount of the financial asset shall be reduced to the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The amount of reduction is recognised as an impairment loss in the profit or loss. Present value of estimated future cash flows is discounted at the financial asset's original effective interest rate (the effective interest rate determined by calculation upon initial recognition) taking into consideration the value of any related collateral. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.3 The accounting policies adopted during the comparative period (continued)

(6) Impairment of financial assets (continued)

Financial assets carried at amortized cost (continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognised in the comprehensive income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified through individually assessment by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and impairment losses are or continue to be recognised are not included in a collective assessment of impairment.

When a financial asset is uncollectible, it is written off against the related allowance for impairment after all the necessary procedures have been completed.

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. The previously recognised impairment loss is reversed. The amount of the reversal is recognised in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognised at the date the impairment is reversed.

Available-for-sale financial assets

A significant or prolonged decline in the fair value of an equity instrument is an objective indicator of impairment of available-for-sale equity instrument. The Group separately checks all available-for-sale equity investments at reporting date. If a decline in the fair value of an equity instrument is below its initial cost by 50% or more, or fair value is below cost for one year or longer at reporting date, it indicates that such an equity instrument is impaired; If such a decline in fair value is below its initial cost by 20% or more but not up to 50% at reporting date, the Group takes other factors such as price volatility into consideration to judge whether the equity instrument is impaired, The Group calculates the initial cost of available-for-sale equity instrument using weighted average method.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.2 Financial instruments (continued)

2.4.2.3 The accounting policies adopted during the comparative period (continued)

(6) Impairment of financial assets (continued)

Available-for-sale financial assets (continued)

If available-for-sale financial asset is impaired, the cumulative loss from declines in fair value that had been recognised directly in other reserves of equity is reclassified from equity to the profit or loss. The amount of the cumulative loss that is transferred out and recognised in the profit or loss equals to the difference between its initial cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss shall be reversed with the amount of the reversal recognised in profit or loss. Any subsequent increase in the fair value of such assets is recognised in other reserves.

When an available-for-sale financial asset measured at cost is impaired, the difference between the carrying amount and the present value determined by discounting future cash flow shall be recognised as impairment loss in profit and loss. The previously recognised impairment loss shall not be reversed in later period.

(7) Offsetting financial instruments

Financial assets and financial liabilities are presented separately in the statement of financial position by the Group, and they shall not be offset against each other; financial assets and financial liabilities should be presented at their net amount when both of the below criteria are met:

(i) The Group has the legal right to offset the recognised amount, and the legal right is enforceable;

(ii) The Group has the intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.3 Trade date accounting

All regular way purchases and sales of financial assets are recognised at the trade date, which is the date that the Group commits to purchase or sell the assets. A regular way purchase or sale is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

2.4.4 Reverse repurchase and repurchase transactions

Assets sold under agreements to repurchase at a specified future date ("repos") are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised on the statement of financial position as a "repurchase agreement", reflecting its economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, assets purchased under agreements to resell at a specified future date ("reverse repos") are not recognised on the statement of financial position. The corresponding cash paid, including accrued interest, is recognised on the statement of financial position as a "reverse repurchase agreement". The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest rate method.

2.4.5 Property and equipment

Property and equipment, other than construction in progress are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price, tax and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

Construction in progress comprises the actual costs of construction. These costs comprise various direct construction costs during the period of construction and other related expenditures. When an asset under construction is ready for its intended use, it is reclassified to fixed assets, intangible assets or other assets, and depreciation or amortisation is provided for according to corresponding policies. Construction in progress is not depreciated until the construction is completed and the asset is ready for its intended use.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.5 Property and equipment (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment, less any estimated residual value, over the estimated useful life. The estimated useful life, estimated residual value rate and annual depreciation rate of each item of property and equipment are as follows:

Categories

	Estimated useful life	Estimated residual value rate	Annual depreciation rate
Properties and buildings	10 to 20 years	5%	4.75%–9.50%
Leasehold improvements	Over the shorter of the useful economic lives and remaining lease terms		
Office equipment	4 to 5 years	5%	19.00%–23.75%
Motor vehicles	3 to 5 years	5%	19.00%–31.67%

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year the asset is derecognised.

2.4.6 Land use rights

Land use rights are recognised at cost, which is the consideration paid. The rights are amortised using the straight-line basis over the period of the leases.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.7 Repossessed assets

Repossessed assets are initially recognised at fair value. The difference between the fair value and the sum of loan principal, interest receivable and impairment provision is taken into the statement of profit or loss. At the end of each year, the repossessed assets are measured at the lower of their carrying value and net realisable value. Provision should be accrued and recognised in the statement of profit or loss if the carrying amount is higher than the net realisable value.

2.4.8 Intangible assets (other than goodwill)

The Group's intangible assets mainly comprise computer software.

Intangible assets are initially measured at cost and recognised only when it is probable that economic benefits associated with the asset will flow to the Group and the cost can be reliably measured. Otherwise, they are recognised in the statement of profit or loss in the period in which they occur.

Upon an intangible asset becoming ready for its intended use, the costs less estimated residual value and any impairment losses are amortised over its estimated useful life on the straight-line basis.

The useful lives of the Group's intangible assets are from 2 years to 10 years. The amortisation rates of the Group's intangible assets are between 10.00% and 50.00%.

The useful life and the amortisation method for intangible assets with finite useful lives are reviewed at the end of each reporting period. If the expected useful life of the asset or the amortisation method differs significantly from previous assessments, the amortisation period or amortisation method is adjusted accordingly as change of accounting estimate.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.9 Investment properties

Investment properties are properties held to earn rentals or for capital appreciation or both. The investment properties of the Group mainly include leased buildings.

Investment property is recognised only when it is probable that economic benefits associated with the property will flow to the Group and the cost of the property can be reliably measured.

Investment properties are initially and subsequently measured using the cost method. Depreciation is calculated using the straight-line method.

Categories

	Estimated useful life	Estimated residual value rate	Annual depreciation rate
Properties and buildings	10 to 20 years	5%	4.75%–9.50%

2.4.10 Business combination and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition costs incurred are expensed.

For each business combination, the Group measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either: (a) fair value; or (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair values, unless another measurement basis is required by IFRSs.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.10 Business combination and goodwill (continued)

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.11 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement.

2.4.12 Asset impairment

Impairment losses on assets except for deferred tax assets and financial assets are determined based on the following:

The Group assesses at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, or when impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined on an individual basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use of an asset, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.13 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. Cash and cash equivalents comprise cash, unrestricted balances with the central bank, amounts due from banks and other financial institutions, reverse repurchase agreements and debt securities with original maturity of less than three months.

2.4.14 Employee benefits

Employee benefits refer to all forms of consideration and other related expenditure given by the Group in exchange for services rendered by employees. The benefits payable are recognised as liabilities during the period in which the employees have rendered services to the Group. If the effect of discounting the benefits payable which are payable after one year from the end of the each year is significant, the Group will present them at their present value.

(a) *Statutory defined contribution plans*

In accordance with the relevant laws and regulations, the employees of the Group participate in basic pension insurance and unemployment insurance schemes administered by the local government authorities. The Group calculates and contributes to the local government agencies under the above pension and insurance schemes using applicable contribution bases and rates stipulated in the relevant local regulations in the period the employees providing their services to the Group. Contributions to these plans are recognised in the statement of profit or loss as incurred.

(b) *Retirement benefit annuity plan*

In addition to the basic pension insurance scheme, employees and early retirees of the Group also participate in a defined contribution plan established by the Group (the "Annuity Plan"). The Group and its employees are required to contribute a certain percentage of the employees' previous year basic salaries to the Annuity Plan. The contribution is charged to the statement of profit or loss when it incurs. The Group pays a fixed contribution into the Annuity Plan and has no obligation to pay further contributions if the Annuity Plan does not hold sufficient assets to pay all employee benefits.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.14 Employee benefits (continued)

(c) *Supplemental retirement benefits*

The Group pays supplemental retirement benefits to the retirees, including supplemental pension payments and medical expense coverage. The liability related to the supplemental retirement benefit obligations as at each financial reporting date is calculated by the Group using the projected unit credit method and is recorded as a liability under "Employee benefit obligations" in the statement of financial position. The present value of the liability is determined by discounting the estimated future cash outflows using interest rates of RMB treasury bonds which have terms to maturity approximating the terms of the related liability. The actuarial gains or losses of supplemental retirement benefits are recognised in "Other comprehensive income" in the period when they occur. The gains or losses arising from amendments to supplemental retirement benefit obligations are recognised in the statement of profit or loss in the period when they occur.

(d) *Early retirement benefits*

According to the Group's policy on early retirement benefits, certain employees are entitled to take leave of absence and in return receive a certain level of staff salaries and related benefits from the Group. The salaries and benefit payments are made from the date of early retirement to the normal retirement date. The amounts of retirement benefit expense and present value of these liabilities are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, retirement benefit growth rates and other factors. Gains and losses arising from the changes in assumptions and amendments to pension plans are recognised in the statement of profit or loss as they occur.

2.4.15 Fiduciary activities

Where the Group acts in a fiduciary capacity such as custodian or agent, assets arising thereon together with related undertakings to return such assets to customers are excluded from the statement of financial position.

The asset custody services of the Group refer to the business that the Group as trustee approved by regulatory authorities, signs custody agreements with clients and takes the responsibility of trustee in accordance with relevant laws and regulations. The assets under custody are recorded as off-balance sheet items as the Group merely fulfils the responsibility as trustee and charges fees in accordance with these agreements without retaining any risks or rewards of the assets under custody.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.15 Fiduciary activities (continued)

The Group grants the entrusted loans on behalf of the trustors, which are recorded off-balance sheet. The Group, as a trustee, grants such entrusted loans to borrowers under the direction of those trustors who fund these loans. The Group has been contracted by those trustors to manage the administration and collection of these loans on their behalf. Those trustors determine both the underwriting criteria for and the terms of all entrusted loans including their purposes, amounts, interest rates, and repayment schedules. The risk of loss is borne by those trustors. The Group charges a commission related to its activities in connection with entrusted loans which is recognised ratably over the period in which the service is provided.

2.4.16 Recognition of income and expense

(a) Interest income

(i) Financial assets under IFRS 9 from 1 January 2018

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets measured at amortised cost or fair value through other comprehensive income, except for:

- POCI financial assets, for which the original credit adjusted effective interest rate is applied to the amortised cost of the financial asset.

- Financial assets that are not 'POCI' but have subsequently become credit impaired (or 'Stage III'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit losses allowance).

(ii) Financial assets under IAS 39 during comparative period

Interest income for all interest-bearing instruments is recognised in the consolidated statement of comprehensive income based on the effective interest method. Interest income includes the amortization of a discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.16 Recognition of income and expense (continued)

(a) Interest income (continued)

(ii) Financial assets under IAS 39 during comparative period (continued)

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 future cash flows for the purpose of measuring the related impairment loss.

(b) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers.

Under IAS 18, for those services that are provided over a specified period of time, fee and commission income is accrued over that period as the services are provided. For other services, fee and commission income are recognized at the time the services are completed.

IFRS 15 provides a more detailed principle-based approach for revenue recognition than the IAS 18. Under IFRS 15, the Group recognizes revenue when a performance obligation is satisfied by transferring a promised good or service to a customer (thus the customer obtains control of that good or service).

(c) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(d) Net trading income

Net trading income arising from trading activities include gains and losses from changes in fair value for financial assets at fair value through profit or loss.

2.4.17 Income tax

Income tax comprises current and deferred income tax. Income tax is recognised in the statement of profit or loss except that it relates to items recognised directly in equity, in which case it is recognised in equity.

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of each year.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.17 Income tax (continued)

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the end of each year between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(i) Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

(i) Where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets to be utilised. When it is virtually probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.17 Income tax (continued)

(b) Deferred tax (continued)

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4.18 Leases

Leases which transfer substantially all the risks and rewards of ownership of the assets to the lessees are classified as finance leases. Leases where substantially all the rewards and risks of the assets remain with the lessor are accounted for as operating leases.

(a) Operating lease – the Group as a lessee

Lease payments under an operating lease are recognised as an expense in the statement of profit or loss on the straight-line basis over the lease term. Initial direct costs are charged to the statement of profit or loss of the current period, and contingent rent is recognised in the statement of profit or loss when incurred.

(b) Operating lease – the Group as a lessor

Lease income is recognised in the statement of profit or loss on the straight-line basis over the lease term. Material initial direct costs are capitalised as incurred, and amortised over the lease term on the same basis as the lease income. Other immaterial initial direct costs are included in the statement of profit or loss of the current period. Contingent rent is recognised in the statement of profit or loss when incurred.

(c) Finance lease – the Group as a lessor

When the Group is a lessor under a finance lease, the present value of the aggregation of the minimum lease payment receivable from the lessee, unguaranteed residual value and initial direct costs is recognised as a receivable. The difference between the receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using an interest rate which reflects a constant rate of return.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.19 Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person,

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.20 Financial guarantee contracts

The Group issues financial guarantee contracts, including letters of credit, letters of guarantee and acceptance. These financial guarantee contracts provide for specified payments to be made to reimburse the holders for the losses they incur when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or any other obligation.

(a) Financial guarantee contracts under IFRS 9

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of expected credit loss allowance; and

- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

(b) Financial guarantee contracts under IAS 39

Financial guarantees are initially recognised at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of guarantee fees recognised in accordance with the revenue recognition policy, and the best estimate of the expenditure required to settle the guarantee. These estimates are determined based on experience of similar transactions, historical losses and supplemented by the judgment of management. Any increase in the liability relating to guarantees is recognised in the consolidated income statement.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.21 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

2.4.22 Dividends

Dividends are recognised as a liability and deducted from equity when they are approved by the Group's shareholders in general meetings and declared. Interim dividends are deducted from equity when they are approved and declared, and no longer at the discretion of the Group. Dividends for the years ended 2018 and 2017 that approved after the end of the year are disclosed as an event after the year.

2.4.23 Structured entities

A structured entity is an entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity. Unconsolidated structured entities refer to equity in other entities which have no significant impact on the Group, including but not limited to equity instrument or debt instruments or any other involvements. The Group's unconsolidated structured entities mainly include off-balance sheet non-guaranteed wealth management products sponsored by the Group and the structured entities invested by the Group (Note 43).

2.4.24 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the Group receives the grants of monetary assets, the grants are recorded at the amount received or receivable. Where the Group receives the grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets. If the fair value cannot be measured reliably, the grants are recorded at the nominal amount of the non-monetary assets. When the grant relates to an expense item, where the grant is intended to compensate the expenses or costs to be incurred in the subsequent period, it is recognised as deferred income and is released to the statement of profit or loss over the periods that the costs, which it is intended to compensate, are expensed; while where the grant is intended to compensate the incurred expenses or costs, the grant is recognised in the statement of profit or loss in the current period. When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments. Grants recorded at nominal amount shall be recognised in the statement of profit or loss in the current period.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (continued)

2.4.25 Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system, whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and assess its performance. Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services, the type or class of customers, the methods used to provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated as "others" segment if they share a majority of these criteria.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has used its judgements and made assumptions of the effects of uncertain future events on the financial statements. The most significant judgements and key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that had a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are described below.

3.1 Expected credit losses measurement

The measurement of the expected credit losses allowance for financial assets measured at amortized cost and FVOCI, financial guarantee contracts and loan commitments is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

The measurement models of expected credit losses involves significant management estimations and judgements, 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 incurred;
- Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; and
- The estimated future cash flows for corporate loans and financial investments measured at amortized costs in stage III.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.2 Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments that are not quoted in an active market. These valuation techniques include the use of observable inputs and data with consistent characteristics of assets or liabilities in the transaction of related assets or liabilities. To the extent practical market observable inputs and data, such as interest rate yield curves, foreign currency rates, commodity price and implied option volatilities, are prioritized to use when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using unobservable inputs and data, such as the Group makes the assumption on the credit risk, volatilities and credit of the Group and the counterparty. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

3.3 Income taxes

Significant estimates are required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues arising from new tax regulations or other uncertain tax arrangements based on estimates of whether additional taxes will be due. The deductibility of certain items is subject to tax authority's final approval. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will affect the current income taxes and levies and/or deferred tax provisions in the period in which such determination is made.

3.4 Early retirement benefits and supplementary retirement benefits

The amount of expenses and liabilities of early retirement benefits and supplementary retirement benefits shall be determined based on various assumptions. These assumptions include the discount rate, the growth rate of average medical expenses, the growth rate of benefits for retirees and other factors. Although the management believes that the assumptions which have been adopted are reasonable, the actual empirical values and the changes in the assumptions will still affect the costs and liabilities of the early retirement benefits and supplementary retirement benefits of the bank.

3.5 Goodwill impairment

Goodwill impairment reviews are undertaken annually or more frequently, and it is also needed if events or changes indicate a potential impairment. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating unit (the "CGU"), or groups of CGUs. The Group forecasts future cash flow of the CGU and CGUs, and applies appropriate discount rate for the calculation of the present value of future cash flow.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.6 Consolidation of structured entities

Where the Group acts as asset manager of or investor in structured entities, the Group makes significant judgement on whether the Group controls and should consolidate these structured entities. When performing this assessment, the Group assesses the Group's contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities, performs analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned as the asset manager, the retention of residual income, and, if any, the liquidity and other support provided to the structured entities. The Group also assesses whether it acts as a principal or an agent through analysis of the scope of its decision-making authority over the structured entities, the remuneration to which it is entitled for asset management services, the Group's exposure to variability of returns from its other interests in the structured entities, and the rights held by other parties in the structured entities.

3.7 Critical accounting estimates and judgements applicable during the comparative period

3.7.1 Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment regularly besides individual impairment loss assessment on identified non-performing loans. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is any observable evidence indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers (e.g. payment delinquency or default), or national or local economic conditions that correlate with defaults on assets. Management makes estimation based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The management regularly reviews the methods and assumptions adopted to forecast the future cash flows to reduce the difference between the estimated loss and actual loss.

3.7.2 Impairment losses on available-for-sale investments and held-to-maturity investments

For available-for-sale investments and held-to-maturity investments, in making the judgment of whether there is any objective evidence of impairment, the Group assesses the duration and extent to which the fair value of an investment is less than its cost regularly; or whether other objective evidence of impairment exists based on the financial condition and business prospect for the investee or issuer, including factors such as industry and sector performance, technology renovation, operating and financing cash flows. It requires management judgment, and will impact the amount of impairment losses.

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

4 TRANSITION DISCLOSURES

4.1 The Impact of the adoption of IFRS 9 on the Group

The classification and measurement of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	31/12/2017	Reclassification	Remeasurement(i)	ECL allowance(ii)	01/01/2018
Financial assets					
Cash and deposits with central bank	103,767,440	–	–	(16,977)	103,750,463
Deposits with banks and other financial institutions	14,443,630	–	–	(3,223)	14,440,407
Placements with banks and other financial institutions	6,606,541	–	–	(1,180)	6,605,361
Reverse repurchase agreements	76,393,395	–	–	(12,759)	76,380,636
Loans and advances to customers	285,701,697	–	–	(277,110)	285,424,587
Financial investments:					
– Financial assets at fair value through profit or loss	15,270,181	68,398,986	211,605	–	83,880,772
– Financial assets at fair value through other comprehensive income	N/A	53,179,321	191,251	–	53,370,572
– Financial assets at amortized cost	N/A	98,172,592	–	(374,116)	97,798,476
Available-for-sale financial assets	68,876,564	(68,876,564)	–	–	N/A
Held-to-maturity investments	59,902,988	(59,902,988)	–	–	N/A
Investment classified as receivables	90,919,325	(90,919,325)	–	–	N/A
Other financial assets	6,615,355	(52,022)	–	(30,275)	6,533,058
Total	**728,497,116**	**–**	**402,856**	**(715,640)**	**728,184,332**
Deferred tax assets	3,634,745	–	(100,714)	249,588	3,783,619
Financial liabilities					
Due to the central bank	1,130,600	–	–	–	1,130,600
Deposits from banks and other financial institutions	43,470,165	–	–	–	43,470,165
Placements from banks and other financial institutions	3,572,433	–	–	–	3,572,433
Repurchase agreements	23,829,470	–	–	–	23,829,470
Customer deposits	488,671,856	–	–	–	488,671,856
Debt securities issued	101,383,777	–	–	–	101,383,777
Other financial liabilities	7,948,949	–	–	282,712	8,231,661
Total	**670,007,250**	**–**	**–**	**282,712**	**670,289,962**
Equity					
Reserves	(1,955,550)	–	294,008	405,127	(1,256,415)
Retained earnings	15,114,407	–	8,134	(1,057,959)	14,064,582
Other equity attributable to shareholders of the Bank	32,885,658	–	–	–	32,885,658
Total equity attributable to shareholders of the Bank	46,044,515	–	302,142	(652,832)	45,693,825
Non-controlling interests	2,433,204	–	–	(95,932)	2,337,272
Total	**48,477,719**	**–**	**302,142**	**(748,764)**	**48,031,097**

(i) Remeasurement refers to the amount changes and income tax impact caused by reclassification from amortized cost measurement to fair value measurement.

(ii) As shown in the above table, the Group's expected credit losses before tax related to financial assets are RMB998,352 thousands on 1 January 2018.

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

4 TRANSITION DISCLOSURES (CONTINUED)

4.2 Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 carrying amount	Reclassification	Remeasurement	ECL allowance	IFRS 9 carrying amount
Financial assets measured at amortised cost					
Cash and deposits with central bank					
Opening balance under IAS 39	103,767,440				
Less: ECL allowance				(16,977)	
Closing balance under IFRS 9					103,750,463
Deposits with banks and other financial institutions					
Opening balance under IAS 39	14,443,630				
Less: ECL allowance				(3,223)	
Closing balance under IFRS 9					14,440,407
Placements with banks and other financial institutions					
Opening balance under IAS 39	6,606,541				
Less: ECL allowance				(1,180)	
Closing balance under IFRS 9					6,605,361
Reverse repurchase agreements					
Opening balance under IAS 39	76,393,395				
Less: ECL allowance				(12,759)	
Closing balance under IFRS 9					76,380,636
Interest receivable					
Opening balance under IAS 39	5,723,067				
Less: ECL allowance				(964)	
Closing balance under IFRS 9					5,722,103
Loans and advances to customers					
Opening balance under IAS 39	285,701,697				
Less: To Loans and advances to customers – FVOCI (IFRS 9)		(4,927,972)			
Less: ECL allowance				(277,110)	
Closing balance under IFRS 9					280,496,615

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

4 TRANSITION DISCLOSURES (CONTINUED)

4.2 Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 carrying amount	Reclassification	Remeasurement	ECL allowance	IFRS 9 carrying amount
Held-to-maturity investments					
Opening balance under IAS 39	59,902,988				
Less: To Financial assets at amortized cost		(59,902,988)			
Closing balance under IFRS 9					N/A
Investment classified as receivables					
Opening balance under IAS 39	90,919,325				
Less: To Financial assets at fair value through profit or loss		(35,107,414)			
Less: To Financial assets at amortized cost		(38,269,604)			
Less: To Financial assets at fair value through other comprehensive income		(17,542,307)			
Closing balance under IFRS 9					N/A
Financial assets at amortized cost					
Opening balance under IAS 39	N/A				
Add: from Investment classified as receivables		38,269,604			
Add: from Held-to-maturity investments		59,902,988			
Less: ECL allowance				(374,116)	
Closing balance under IFRS 9					97,798,476
Other financial assets					
Opening balance under IAS 39	892,288				
Less: To Financial assets at fair value through profit or loss		(52,022)			
Less: ECL allowance				(29,311)	
Closing balance under IFRS 9					810,955
Total financial assets measured at amortised cost	644,350,371	(57,629,715)		(715,640)	586,005,016

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

4 TRANSITION DISCLOSURES (CONTINUED)

4.2 Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 carrying amount	Reclassification	Remeasurement	ECL allowance	IFRS 9 carrying amount
Financial assets measured at fair value through profit or loss					
Financial assets at fair value through profit or loss					
Opening balance under IAS 39	15,270,181				
Add: from Investment classified as receivables		35,107,414			
Add: from Available-for-sale financial assets		33,239,550			
Add: from Other financial assets		52,022			
Remeasurement: from amortised cost to fair value			211,605		
Closing balance under IFRS 9					83,880,772
Total financial assets measured at fair value through profit or loss	15,270,181	68,398,986	211,605		83,880,772
Financial assets measured at fair value through other comprehensive income					
Loans and advances to customers					
Opening balance under IAS 39	N/A				
Add: from Loans and advances to customers- amortised cost		4,927,972			
Remeasurement: from amortised cost to fair value					
Closing balance under IFRS 9					4,927,972

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

4 TRANSITION DISCLOSURES (CONTINUED)

4.2 Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 carrying amount	Reclassification	Remeasurement	ECL allowance	IFRS 9 carrying amount
Available-for-sale financial assets					
Opening balance under IAS 39	68,876,564				
Less: To Financial assets at fair value through profit or loss		(33,239,550)			
Less: To Financial assets at fair value through other comprehensive income		(35,637,014)			
Closing balance under IFRS 9					N/A
Financial assets measured at fair value through other comprehensive income					
Opening balance under IAS 39	N/A				
Add: from Available-for-sale financial assets		35,637,014			
Add: from Investment classified as receivables		17,542,307			
Remeasurement: Valuation			191,251		
Closing balance under IFRS 9					53,370,572
Total financial assets measured at fair value through other comprehensive income	68,876,564	(10,769,271)	191,251	–	58,298,544
Total financial assets	728,497,116	–	402,856	(715,640)	728,184,332

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

4 TRANSITION DISCLOSURES (CONTINUED)

4.3 Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected credit losses model on 1 January 2018:

Measurement category	Allowance for Impairment loss under IAS 39/ Provision under IAS 37	Remeasurement	Expected credit losses	ECL allowance /Provisions under IFRS 9
Amortised cost				
Cash and deposits with central bank	–	–	16,977	16,977
Deposits with banks and other financial institutions	–	–	3,223	3,223
Placements with banks and other financial institutions	–	–	1,180	1,180
Reverse repurchase agreements	–	–	12,759	12,759
Loans and advances to customers	8,261,438	–	277,110	8,538,548
Financial assets at amortized cost	N/A	122,937	374,116	497,053
Held-to-maturity investments	10,101	(10,101)	–	N/A
Investment classified as receivables	112,836	(112,836)	–	N/A
Other financial assets	672,100	(127,227)	30,275	575,148
Loan commitments and financial guarantee contracts	–	–	282,712	282,712
Fair value through profit or loss (FVPL)				
Investment classified as receivables	105,603	(105,603)	–	N/A
Fair value through other comprehensive income (FVOCI)				
Investment classified as receivables	207,759	(207,759)	–	N/A
Loans and advances to customers	50,138	–	(14,574)	35,564
Financial assets at fair value through other comprehensive income	N/A	207,759	296,846	504,605
Total	9,419,975	(232,830)	1,280,624	10,467,769

5 OPERATING SEGMENT INFORMATION

5.1 Operating segments

For management purposes, the Group is organized into four different operating segments as follows:

Corporate banking

The corporate banking segment covers financial products and services for corporate customers including deposits, loans, settlement, clearing and other trade-related services.

Retail banking

The retail banking segment covers financial products and services for individual customers including deposits, debit and credit cards, personal and collateral loans and personal wealth management services.

Financial market business

The financial market business segment covers proprietary tradings and agent services including money market placements, investments, repurchases and foreign exchange transactions.

Others

This segment covers businesses other than corporate banking, retail banking and financial market business, of which the assets, liabilities, income and expenses cannot be directly attributable or allocated to certain segment on a reasonable basis.

Inter-segment transfer pricing is in accordance with the sources, funding periods and referring to the interest rates announced by the PBOC and the interbank market rates. The allocation of expenses between segments above is based on the benefits received.

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

5 OPERATING SEGMENT INFORMATION (CONTINUED)

5.1 Operating segments (continued)

	Corporate banking	Retail banking	Financial market business	Others	Total
Year ended 31 December 2018					
Interest income	13,808,430	4,380,004	11,257,150	–	29,445,584
Interest expense	(5,149,061)	(3,766,016)	(7,258,857)	–	(16,173,934)
Inter-segments Interest (expense)/income	(534,472)	4,405,009	(3,870,537)	–	–
Net interest income	8,124,897	5,018,997	127,756	–	13,271,650
Fee and commission income	975,184	749,469	88,567	–	1,813,220
Fee and commission expense	(165,073)	(91,146)	(9,481)	–	(265,700)
Net fee and commission income	810,111	658,323	79,086	–	1,547,520
Net gains on financial investments	–	–	648,937	–	648,937
Net trading gains	–	–	4,536,738	464	4,537,202
Other income, gains or losses	267,338	822	(139)	393,338	661,359
Operating income	9,202,346	5,678,142	5,392,378	393,802	20,666,668
Operating expenses	(1,848,142)	(3,489,955)	(604,107)	(42,130)	(5,984,334)
Credit impairment losses	(4,836,817)	(788,849)	(98,241)	(106,016)	(5,829,923)
Impairment losses on other assets	(115,338)	(18,811)	(2,343)	(2,527)	(139,019)
Profit before tax	2,402,049	1,380,527	4,687,687	243,129	8,713,392
Income tax expense					(1,881,229)
Profit for the year					6,832,163
Other segment information:					
Depreciation and amortisation	181,147	382,355	17,751	5,194	586,447
Capital expenditure	706,771	1,491,813	69,257	20,264	2,288,105
As at 31 December 2018					
Segment assets	263,382,440	111,363,326	382,038,522	6,505,309	763,289,597
Segment liabilities	(294,902,741)	(258,069,510)	(154,696,800)	(39,478)	(707,708,529)
Other segment information:					
Credit commitments	127,036,959	13,685,268	–	–	140,722,227

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

5 OPERATING SEGMENT INFORMATION (CONTINUED)

5.1 Operating segments (continued)

	Corporate banking	Retail banking	Financial market business	Others	Total
Year ended 31 December 2017					
Interest income	9,769,905	4,578,405	14,838,136	–	29,186,446
Interest expense	(4,596,546)	(3,878,266)	(9,017,107)	–	(17,491,919)
Inter-segments Interest (expense)/income	596,210	4,285,794	(4,882,004)	–	–
Net interest income	5,769,569	4,985,933	939,025	–	11,694,527
Fee and commission income	1,378,568	941,431	248,557	–	2,568,556
Fee and commission expense	(175,660)	(85,906)	(15,603)	–	(277,169)
Net fee and commission income	1,202,908	855,525	232,954	–	2,291,387
Net (losses)/gains on financial investments	–	–	(1,640,901)	1,867	(1,639,034)
Net trading gains	–	–	1,299,396	–	1,299,369
Other income, gains or losses	(294,142)	(1,498)	(2,729)	130,753	(167,616)
Operating income	6,678,335	5,839,960	827,745	132,620	13,478,660
Operating expenses	(1,506,487)	(2,808,198)	(672,881)	(176,628)	(5,164,194)
Impairment losses on assets	(470,106)	(182,509)	(134,301)	(935)	(787,851)
Profit before tax	4,701,742	2,849,253	20,563	(44,943)	7,526,615
Income tax expense					(1,635,624)
Profit for the year					5,890,991
Other segment information:					
Depreciation and amortisation	148,362	310,937	32,879	43,966	536,144
Capital expenditure	144,333	302,494	31,986	21,350	500,163
As at 31 December 2017					
Segment assets	191,558,514	96,154,756	443,926,050	4,074,340	735,713,660
Segment liabilities	(277,003,086)	(234,629,504)	(175,367,019)	(236,332)	(687,235,941)
Other segment information:					
Credit commitments	102,855,738	19,312,291	–	–	122,168,029

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

5 OPERATING SEGMENT INFORMATION (CONTINUED)

5.2 Geographic information

The Bank mainly operates in Guangdong Province, China. The main customers and non-current assets are located in Guangdong Province, China.

6 NET INTEREST INCOME

	Year ended 31 December	
	2018	2017
Interest income		
Loans and advances to customers	**19,605,081**	14,955,910
Financial investments	**6,187,427**	10,319,368
– Financial assets at amortized cost	**3,377,475**	N/A
– Financial assets at fair value through other comprehensive income	**2,809,952**	N/A
– Investment classified as receivables	**N/A**	3,545,122
– Available-for-sale financial assets	**N/A**	5,646,805
– Held-to-maturity investments	**N/A**	1,127,441
Financial assets held under resale agreements	**1,606,545**	2,000,641
Due from central bank	**1,083,252**	1,081,846
Deposits with banks and other financial institutions	**963,279**	828,681
Subtotal	**29,445,584**	29,186,446
Interest expense		
Customer deposits	**(9,159,620)**	(8,611,976)
Debt securities issued	**(3,895,244)**	(5,378,132)
Deposits from banks and other financial institutions	**(2,126,440)**	(2,446,913)
Financial assets sold under repurchase agreements	**(449,332)**	(669,876)
Borrowings from other banks(i)	**(491,867)**	(363,331)
Due to central bank	**(51,431)**	(21,691)
Subtotal	**(16,173,934)**	(17,491,919)
Net interest income	**13,271,650**	11,694,527
Including:		
Interest income accrued on impaired financial assets	**56,433**	88,050

(i) The interest expenses for the long-term and short-term borrowings from other banks were incurred by Zhujiang Financial Leasing Co., Ltd., a wholly-owned subsidiary of the Bank.

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

7 NET FEE AND COMMISSION INCOME

	Year ended 31 December	
	2018	2017
Fee and commission income:		
Bank card fees	**609,863**	620,543
Advisory and consultancy fees	**360,730**	823,175
Agency and custodian service fees	**284,114**	393,987
Settlement and electronic channel business fees	**145,633**	126,335
Wealth management product related fee income	**82,746**	188,922
Financial lease business fees	**82,707**	142,179
Foreign exchange business fees	**79,660**	86,015
Others	**167,767**	187,400
Subtotal	**1,813,220**	2,568,556
Fee and commission expense:		
Settlement and electronic channel business fees	**(20,520)**	(29,572)
Bank card fees	**(57,381)**	(66,625)
Others	**(187,799)**	(180,972)
Subtotal	**(265,700)**	(277,169)
Net fee and commission income:	**1,547,520**	2,291,387

8 NET TRADING GAINS

	Year ended 31 December	
	2018	2017
Debt securities:		
Unrealised gains/(losses) from debt securities	**1,617,252**	(31,749)
Realised gains from debt securities	**2,788,432**	711,547
Subtotal	**4,405,684**	679,798
Funds:		
Unrealised gains from funds	**128,786**	5,011
Realised gains from funds	**2,268**	614,587
Subtotal	**131,054**	619,598
Others	**464**	N/A
Total	**4,537,202**	1,299,396

The above amounts include gains and losses arising from the buying and selling of, interest income on, and changes in the fair value of financial assets at fair value through profit or loss.

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

9 NET GAINS/(LOSSES) ON FINANCIAL INVESTMENTS

	Year ended 31 December	
	2018	2017
Net gains from financial assets at fair value through other comprehensive income	**643,530**	N/A
Net gains from financial assets at amortized cost	**5,407**	N/A
Net losses on disposal of available-for-sale financial assets	**N/A**	(1,639,034)
Total	**648,937**	(1,639,034)

10 OTHER INCOME, GAINS OR LOSSES

	Year ended 31 December	
	2018	2017
Government grants and subsidies	**88,773**	141,550
Net foreign exchange gains/(losses)	**269,983**	(308,260)
Net (losses)/gains on disposal of property and equipment	**(758)**	242
Net gains/(losses) on sale of repossessed assets	**11,206**	(33,275)
Penalties and compensation	**288,677**	13,679
Donations	**(3,117)**	(5,525)
Others	**6,595**	23,973
Total	**661,359**	(167,616)

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

11 OPERATING EXPENSES

	Year ended 31 December	
	2018	2017
Staff costs(i)	**3,687,561**	3,029,863
Depreciation and amortisation	**563,688**	513,965
Rental expenses	**287,711**	254,889
Tax and surcharges	**187,477**	162,774
Labor dispatch fee	**176,023**	169,074
Consulting fees	**17,313**	24,014
Professional service fees	**13,560**	10,601
Others	**1,051,001**	999,014
Total	**5,984,334**	5,164,194

(i) Staff costs

	Year ended 31 December	
	2018	2017
Salaries, bonuses and allowances	**2,660,680**	2,039,827
Social insurance and employee benefits	**845,959**	842,478
Benefits for early retirement and supplemental retirement	**91,888**	77,835
Labour union expenditure and education costs	**89,034**	69,723
Total	**3,687,561**	3,029,863

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

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Details of the directors' and supervisors' emoluments are as follows:

	Year ended 31 December 2018				
Name	Fees	Salaries	Allowances and benefits	Contribution to pension schemes	Total
Chairman					
Wang Jikang	–	921	101	128	1,150
Vice Chairman					
Yi Xuefei	–	921	101	128	1,150
Independent Directors					
Yung Hin Man Raymond	231	–	–	–	231
Liu Shaobo	255	–	–	–	255
Liu Heng	231	–	–	–	231
Song Guanghui	394	–	–	–	394
Zheng Jianbiao	202	–	–	–	202
Directors					
Li Fangjin	93	–	–	–	93
Zheng Shuping(i)	–	–	–	–	–
Su Zhigang	63	–	–	–	63
Shao Jianming	93	–	–	–	93
Zhang Yongming	93	–	–	–	93
Zhu Kelin	105	–	–	–	105
Liu Guojie	69	–	–	–	69
Supervisors					
Huang Yong	99	–	–	–	99
Lu Lian(ii)	78	–	–	–	78
Zhang Dalin	87	–	–	–	87
Liu Wensheng(iii)	–	55	9	9	73
Lai Jiaxiong	–	1,388	101	128	1,617
Xiao Shilian	–	274	36	44	354
He Heng	–	1,311	101	126	1,538
External Supervisors					
Chen Dan	81	–	–	–	81
Shao Baohua	93	–	–	–	93
Mao Yunshi	141	–	–	–	141
Total	2,408	4,870	449	563	8,290

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

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Details of the directors' and supervisors' emoluments are as follows: (continued)

	Year ended 31 December 2017				
Name	Fees	Salaries	Allowances and benefits	Contribution to pension schemes	Total
Chairman					
Wang Jikang	–	886	104	121	1,111
Vice Chairman					
Yi Xuefei	–	886	104	121	1,111
Independent Directors					
Yung Hin Man Raymond	207	–	–	–	207
Liu Shaobo	243	–	–	–	243
Liu Heng	231	–	–	–	231
Song Guanghui	397	–	–	–	397
Zheng Jianbiao	208	–	–	–	208
Directors					
Li Fangjin	63	–	–	–	63
Zheng Shuping	69	–	–	–	69
Su Zhigang	63	–	–	–	63
Shao Jianming	75	–	–	–	75
Zhang Yongming	69	–	–	–	69
Zhu Kelin	81	–	–	–	81
Liu Guojie	63	–	–	–	63
Wu Huiqiang(iv)	–	400	50	69	519
Supervisors					
Huang Yong	109	–	–	–	109
Lu Lian	105	–	–	–	105
Zhang Dalin	99	–	–	–	99
Liu Wensheng	–	798	104	121	1,023
Xiao Shilian	–	1,266	103	114	1,483
He Heng	–	1,244	104	83	1,431
External Supervisors					
Chen Dan	99	–	–	–	99
Shao Baohua	111	–	–	–	111
Mao Yunshi	163	–	–	–	163
Total	2,455	5,480	569	629	9,133

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

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(a) Details of the directors' and supervisors' emoluments are as follows: (continued)

(i) Zheng Shuping ceased to act as the director of the Bank from 26 October 2018.

(ii) Lu Lian ceased to act as the supervisor of the Bank from 22 November 2018.

(iii) Liu Wensheng ceased to act as the supervisor of the Bank from 31 January 2018.

(iv) Wu Huiqiang ceased to act as the director of the Bank from 7 September 2017.

(b) Five highest paid individuals

The five highest paid individuals of the Group are all employees of the Bank. In the years ended 31 December 2018 and 2017, the five highest paid individuals of the Group comprised no directors nor supervisors. The emoluments of the five highest paid individuals for the years are as follows:

	Year ended 31 December	
	2018	2017
Salaries, allowances and discretionary bonuses	**10,394**	8,850
Contributions to pension schemes	**1,143**	1,125
Total	**11,537**	9,975

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

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

(b) Five highest paid individuals (continued)

	Number of Individuals Year ended 31 December	
	2018	2017
RMB500,001 – RMB1,000,000	**–**	–
RMB1,000,001 – RMB1,500,000	**–**	–
RMB1,500,001 – RMB2,000,000	**1**	2
RMB2,000,001 – RMB2,500,000	**4**	3
RMB2,500,001 – RMB3,000,000	**–**	–
Total	**5**	5

For the years ended 31 December 2018 and 2017, no emoluments had been paid or payable by the Group to any of the directors, supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13 IMPAIRMENT LOSSES

(a) Credit impairment losses:

	Year ended 31 December	
	2018	2017
Loans and advances to customers	**5,017,913**	N/A
Placements with banks and other financial institutions	**158**	N/A
Loans and advances at fair value through other comprehensive income	**271,729**	N/A
Financial investments	**411,076**	N/A
Others	**129,047**	N/A
Total	**5,829,923**	N/A

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

13 IMPAIRMENT LOSSES (CONTINUED)

(b) Impairment losses on other assets:

	Year ended 31 December	
	2018	2017
Goodwill	**124,160**	N/A
Others	**14,859**	N/A
Total	**139,019**	N/A

(c) Impairment losses on assets:

	Year ended 31 December	
	2018	2017
Loans and advances to customers	**N/A**	631,095
Financial investments	**N/A**	8,064
Others	**N/A**	148,692
Total	**N/A**	787,851

14 INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
Current income tax	**2,441,532**	1,550,877
Deferred income tax	**(560,303)**	84,747
Total	**1,881,229**	1,635,624

Current income tax is calculated based on the statutory rate of 25% of the taxable income of the Group for the respective periods.

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

14 INCOME TAX EXPENSE (CONTINUED)

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

	Year ended 31 December	
	2018	2017
Profit before income tax	**8,713,392**	7,526,615
Tax calculated at a tax rate of 25%	**2,178,348**	1,881,654
Tax effect arising from income not subject to tax (i)	**(376,936)**	(320,973)
Tax effect of expenses that are not deductible for tax purposes (ii)	**43,807**	59,849
Tax effect of deductible temporary differences and deductible tax losses that are not recognised as deferred income tax assets in the current period	**32,605**	–
Adjustments on income tax for prior years which affect current profit or loss	**3,405**	15,094
Income tax expense	**1,881,229**	1,635,624

(i) The income not subject to tax mainly represents interest income arising from treasury bonds, which is income tax free in accordance with the PRC tax regulations.

(ii) The expenses that are not tax deductible for tax purposes mainly represent certain expenditures, such as entertainment expenses and so forth, which are not deductible for tax purposes according to PRC tax regulations.

15 DIVIDENDS

	Year ended 31 December	
	2018	2017
Dividends on ordinary shares declared and paid: Final dividend	**1,961,654**	1,630,684
Dividend per share (in RMB yuan)	**0.20**	0.20

The resolution on the Bank's distribution of cash dividends of RMB20 cents per share in respect of the year ended 31 December 2018, with the total dividends expected to be RMB1,961,654 thousands, is subject to the approval of the shareholders at the forthcoming annual general meeting.

A dividend of RMB20 cents per share in respect of the year ended 31 December 2017, with a total of RMB1,630,684 thousands was approved in the 2017 annual general meeting on 31 May 2018.

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

16 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding in issue during the years.

	Year ended 31 December	
	2018	2017
Net profit attributable to ordinary shareholders of the Bank (in RMB thousand)	**6,526,337**	5,708,718
Weighted average number of ordinary shares in issue (in thousand)	**9,808,269**	9,023,915
Basic and diluted earnings per share (in RMB yuan)	**0.67**	0.63

During the years 2018 and 2017, there were no potential diluted ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

17 CASH AND DEPOSITS WITH CENTRAL BANK

	31 December 2018	31 December 2017
Cash on hand	**2,532,087**	2,443,043
Mandatory reserves with central bank (a)	**59,797,236**	69,854,954
Surplus reserves with central bank (b)	**37,455,968**	29,874,989
Fiscal deposits with central bank	**1,813,106**	1,594,454
Subtotal	**101,598,397**	103,767,440
Less:		
ECL allowance	**(8,683)**	N/A
Total	**101,589,714**	103,767,440

(a) The Group is required to place mandatory reserve deposits with the People's Bank of China (the "PBOC"), and these mandatory reserve deposits with the central bank are not available for use in the Group's daily operations. As at 31 December 2018, the ratio of the Bank for RMB deposits statutory reserve was 12% (31 December 2017: 14.5%), and different ratios are applicable to the subsidiaries based on their locations. The ratio for foreign currency deposits was 5%. The reserves for RMB and foreign currencies is interest bearing based on the requirement of the PBOC.

(b) Surplus reserve deposits maintained with the PBOC are mainly for settlement purpose.

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

18 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
Deposits with banks and other financial institutions:		
Deposits with banks operating in Mainland China	**8,019,099**	11,109,974
Deposits with other financial institutions operating in Mainland China	**561,029**	1,304,771
Deposits with banks operating outside Mainland China	**2,222,805**	2,028,885
Interest receivable	**64,603**	N/A
Less:		
ECL allowance	**(974)**	N/A
Total	**10,866,562**	14,443,630

19 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2018	2017
Placements		
Banks operating in Mainland China	**4,959,246**	5,206,541
Other financial institutions operating in Mainland China	**10,215,000**	1,400,000
Interest receivable	**126,205**	N/A
Less:		
ECL allowance	**(1,338)**	N/A
Total	**15,299,113**	6,606,541

20 REVERSE REPURCHASE AGREEMENTS

	As at 31 December	
	2018	2017
Financial assets held under resale agreements:		
Notes purchased under resale agreements	**2,043,170**	12,360,998
Securities purchased under resale agreements	**27,260,350**	64,032,397
Interest receivable	**38,002**	N/A
Less:		
ECL allowance	**(2,572)**	N/A
Total	**29,338,950**	76,393,395

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

21 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers:

	As at 31 December	
	2018	2017
Loans and advances at amortised cost		
Corporate loans and advances		
– Corporate loans	**266,039,075**	192,541,478
– Discounted bills	**155,312**	5,219,393
	266,194,387	197,760,871
Personal loans and advances		
– Personal residential mortgages	**54,297,183**	46,828,065
– Personal business loans	**31,890,383**	26,356,022
– Personal consumption loans	**13,294,058**	15,043,496
– Credit cards overdraft	**8,872,460**	8,024,819
	108,354,084	96,252,402
Gross amount of loans and advances at amortised cost	**374,548,471**	294,013,273
Less: ECL allowance of loans and advances at amortised cost	**(13,020,939)**	N/A
Including: Stage I	**(3,821,786)**	N/A
Stage II	**(5,370,044)**	N/A
Stage III	**(3,829,109)**	N/A
Less: Allowance for impairment losses	**N/A**	(8,311,576)
– Collectively assessed	**N/A**	(6,550,292)
– Individually assessed	**N/A**	(1,761,284)
Net amount of loans and advances at amortised cost	**361,527,532**	285,701,697
Loans and advances at fair value through other comprehensive income		
Corporate loans:		
Discounted bills	**3,440,439**	N/A
Net amount of Loans and advance to customers	**364,967,971**	285,701,697

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

21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Loans listed by assessment method for allowance

	Stage I	Stage II	Stage III	Total
31 December 2018				
Corporate loans	223,374,416	41,041,254	5,219,156	269,634,826
Personal loans	105,920,352	962,141	1,471,591	108,354,084
Gross amount of loans and advances to customers	329,294,768	42,003,395	6,690,747	377,988,910
Less:				
ECL allowance	(3,821,786)	(5,370,044)	(3,829,109)	(13,020,939)
Net amount of loans and advances to customers	325,472,982	36,633,351	2,861,638	364,967,971

	Not impaired loans and advances	Identified impaired loans and advances			
	Collectively assessed	Collectively assessed	Individually assessed	Subtotal	Total
31 December 2017					
Corporate loans	194,947,899	–	2,812,972	2,812,972	197,760,871
Personal loans	94,614,737	1,637,665	–	1,637,665	96,252,402
Gross amount of loans and advances to customers	289,562,636	1,637,665	2,812,972	4,450,637	294,013,273
Less:					
Allowance for impairment losses	(5,041,538)	(1,508,754)	(1,761,284)	(3,270,038)	(8,311,576)
Net amount of loans and advances to customers	284,521,098	128,911	1,051,688	1,180,599	285,701,697

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

21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Movements in ECL allowance

Movements in ECL allowance on loans and advances to customers at amortised cost

Corporate loans and advances	Year ended 31 December 2018			
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2018 (restated)	1,028,290	1,429,426	1,817,727	4,275,443
New financial assets originated or purchased	758,913	1,881,821	44,091	2,684,825
Derecognition or Settlements	(441,870)	(300,478)	(238,927)	(981,275)
Remeasurement				
– Update on the model	(74,622)	84,716	475,969	486,063
– Stage Transfer	(180,978)	2,092,339	1,443,664	3,355,025
Write-Off	–	–	(1,135,106)	(1,135,106)
Transfers	72,131	(252,796)	180,665	–
Transfer from Stage I to Stage II	(121,130)	121,130	–	–
Transfer from Stage I to Stage III	(1,693)	–	1,693	–
Transfer from Stage II to Stage I	194,954	(194,954)	–	–
Transfer from Stage II to Stage III	–	(183,965)	183,965	–
Transfer from Stage III to Stage II	–	4,993	(4,993)	–
Transfer from Stage III to Stage I	–	–	–	–
Others	–	–	(47,477)	(47,477)
31 December 2018	1,161,864	4,935,028	2,540,606	8,637,498

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

21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Movements in ECL allowance (continued)

	Year ended 31 December 2018			
Personal loans and advances	**Stage I 12-month ECL**	**Stage II Lifetime ECL**	**Stage III Lifetime ECL**	**Total**
ECL allowance as at 1 January 2018 (restated)	2,232,506	411,894	1,618,705	4,263,105
New financial assets originated or purchased	1,683,579	73,692	29,357	1,786,628
Derecognition or Settlements	(1,293,982)	(161,357)	(508,230)	(1,963,569)
Remeasurement				
– Update on the model	68,314	13,686	364,611	446,611
– Stage Transfer	(72,501)	220,149	446,579	594,227
Write-Off	–	–	(734,605)	(734,605)
Transfers	42,006	(123,048)	81,042	–
Transfer from Stage I to Stage II	(18,111)	18,111	–	–
Transfer from Stage I to Stage III	(19,387)	–	19,387	–
Transfer from Stage II to Stage I	76,006	(76,006)	–	–
Transfer from Stage II to Stage III	–	(69,386)	69,386	–
Transfer from Stage III to Stage II	–	4,233	(4,233)	–
Transfer from Stage III to Stage I	3,498	–	(3,498)	–
Others	–	–	(8,956)	(8,956)
31 December 2018	2,659,922	435,016	1,288,503	4,383,441

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

21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Movements in ECL allowance (continued)

Movements in ECL allowance on loans and advances to customers at fair value through other comprehensive income

Discounted bills	Year ended 31 December 2018			
	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2018 (restated)	35,564	–	–	35,564
New financial assets originated or purchased	12,059	95,488	164,182	271,729
Derecognition or Settlements	(35,564)	–	–	(35,564)
Transfers	–	–	–	–
Transfer from Stage I to Stage II	–	–	–	–
Transfer from Stage I to Stage III	–	–	–	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	–	–	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
31 December 2018	12,059	95,488	164,182	271,729

	Year ended 31 December 2017		
	Collective impairment	Individual impairment	Total
Allowance as at 1 January 2017	1,233,896	6,722,629	7,956,525
Charge	597,377	33,718	631,095
Write-offs	(814,270)	(475,511)	(1,289,781)
Recoveries	799,330	244,443	1,043,773
Unwinding of discount on allowance	(73,997)	(14,053)	(88,050)
Acquisition of a subsidiary	18,948	39,066	58,014
Allowance as at 31 December 2017	1,761,284	6,550,292	8,311,576

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

21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) The movements in gross carrying amounts of loans and advances

The movements in gross carrying amounts of loans and advances to customers at amortised cost

	Year ended 31 December 2018			
Corporate loans and advances	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
Gross carrying amounts as at 1 January 2018 (restated)	171,649,900	18,564,019	2,618,980	192,832,899
New financial assets originated or purchased	140,973,765	17,968,608	107,376	159,049,749
Derecognition	(75,339,039)	(8,772,962)	(441,154)	(84,553,155)
Write-Off	–	–	(1,135,106)	(1,135,106)
Transfers	(16,449,977)	12,744,465	3,705,512	–
Transfer from Stage I to Stage II	(17,928,924)	17,928,924	–	–
Transfer from Stage I to Stage III	(138,904)	–	138,904	–
Transfer from Stage II to Stage I	1,617,851	(1,617,851)	–	–
Transfer from Stage II to Stage III	–	(3,573,808)	3,573,808	–
Transfer from Stage III to Stage II	–	7,200	(7,200)	–
Transfer from Stage III to Stage I	–	–	–	–
Gross carrying amounts as at 31 December 2018	220,834,649	40,504,130	4,855,608	266,194,387

	Year ended 31 December 2018			
Personal loans and advances	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
Gross carrying amounts as at 1 January 2018 (restated)	93,354,264	1,041,111	1,857,027	96,252,402
New financial assets originated or purchased	43,482,060	145,135	35,181	43,662,376
Derecognition	(30,010,464)	(475,833)	(339,792)	(30,826,089)
Write-Off	–	–	(734,605)	(734,605)
Transfers	(905,508)	251,728	653,780	–
Transfer from Stage I to Stage II	(641,958)	641,958	–	–
Transfer from Stage I to Stage III	(500,864)	–	500,864	–
Transfer from Stage II to Stage I	230,767	(230,767)	–	–
Transfer from Stage II to Stage III	–	(168,692)	168,692	–
Transfer from Stage III to Stage II	–	9,229	(9,229)	–
Transfer from Stage III to Stage I	6,547	–	(6,547)	–
Gross carrying amounts as at 31 December 2018	105,920,352	962,141	1,471,591	108,354,084

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

21 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) The movements in gross carrying amounts of loans and advances (continued)

The movements in gross carrying amounts of loans and advances to customers at fair value through other comprehensive income

	Year ended 31 December 2018			
Discounted bills	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
Gross carrying amounts as at 1 January 2018 (restated)	4,927,972	–	–	4,927,972
New financial assets originated or purchased	2,539,767	537,124	363,548	3,440,439
Derecognition	(4,927,972)	–	–	(4,927,972)
Transfers	–	–	–	–
Transfer from Stage I to Stage II	–	–	–	–
Transfer from Stage I to Stage III	–	–	–	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	–	–	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
Gross carrying amounts as at 31 December 2018	2,539,767	537,124	363,548	3,440,439

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2018	2017
Government bonds	4,224,785	700,325
Bonds issued by policy banks	4,500,108	5,429,762
Bonds issued by financial institutions	1,700,527	–
Deposit certificates issued by other financial institutions	894,013	193,638
Asset-Backed Securities	93,099	287,407
Corporate bonds	1,701,589	1,076,933
Fund and other investments	75,070,674	7,582,116
Interest receivable	1,612,360	N/A
Total	89,797,155	15,270,181

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

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

Financial assets at fair value through profit or loss analysed by categories of the issuer are as follows:

	As at 31 December	
	2018	2017
Debt securities issued by:		
– Government	**4,224,785**	700,325
– Policy banks	**4,500,108**	5,429,762
– Other banks and non-bank financial institutions	**2,687,639**	481,045
– Corporate	**1,701,589**	1,076,933
Subtotal	**13,114,121**	7,688,065
Funds and others	**75,070,674**	7,582,116
Interest receivable	**1,612,360**	N/A
Total	**89,797,155**	15,270,181

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December	
	2018	2017
Government bonds	**13,540,436**	N/A
Bonds issued by policy banks	**23,959,694**	N/A
Bonds issued by financial institutions	**3,796,764**	N/A
Asset-Backed Securities	**109,335**	N/A
Corporate bonds	**4,075,007**	N/A
Interbank negotiable certificate of deposit	**592,792**	N/A
Trust and asset management plans	**10,654,695**	N/A
Interest receivable	**969,028**	N/A
Total	**57,697,751**	N/A

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

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

(a) Financial assets at fair value through other comprehensive income analysed by issuer are as follows:

	As at 31 December	
	2018	2017
By issuer:		
– Government	**13,540,436**	N/A
– Banks and other financial institutions	**28,458,585**	N/A
– Trust plans and asset management plans issued by financial institution other than bank	**10,654,695**	N/A
– Corporates	**4,075,007**	N/A
Subtotal	**56,728,723**	N/A
Equity securities	**–**	N/A
Interest receivable	**969,028**	N/A
Total	**57,697,751**	N/A

(b) Movements in ECL allowance are summarised as follows:

	Stage I 12-month ECL	**Stage II Lifetime ECL**	**Stage III Lifetime ECL**	**Total**
ECL allowance as at 1 January 2018 (restated)	**253,071**	**95,094**	**156,440**	**504,605**
New financial assets originated or purchased	**76,985**	**296,123**	**90,740**	**463,848**
Derecognition or Settlements	**(170,700)**	**(26,083)**	**(143,458)**	**(340,241)**
Remeasurement				
– Update on the model	**(9,112)**	**(24,701)**	**(5,958)**	**(39,771)**
– Stage Transfer	**(17,229)**	**33,472**	**166,322**	**182,565**
Transfers:	**15,346**	**(44,103)**	**28,757**	**–**
Transfer from Stage I to Stage II	**(207)**	**207**	**–**	**–**
Transfer from Stage I to Stage III	**(4,009)**	**–**	**4,009**	**–**
Transfer from Stage II to Stage I	**19,562**	**(19,562)**	**–**	**–**
Transfer from Stage II to Stage III	**–**	**(24,748)**	**24,748**	**–**
Transfer from Stage III to Stage II	**–**	**–**	**–**	**–**
Transfer from Stage III to Stage I	**–**	**–**	**–**	**–**
31 December 2018	**148,361**	**329,802**	**292,843**	**771,006**

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

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

(c) The movements in gross carrying amounts are summarised as follows:

	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
Gross carrying amounts as at 1 January 2018 (restated)	51,358,437	889,072	1,123,063	53,370,572
New financial assets originated or purchased	22,538,043	1,204,267	199,961	23,942,271
Derecognition	(19,073,120)	(395,759)	(1,115,241)	(20,584,120)
Transfers:	(287,754)	(314,266)	602,020	–
Transfer from Stage I to Stage II	(176,807)	176,807	–	–
Transfer from Stage I to Stage III	(400,088)	–	400,088	–
Transfer from Stage II to Stage I	289,141	(289,141)	–	–
Transfer from Stage II to Stage III	–	(201,932)	201,932	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	–	–	–	–
Change of interest accrued	931,520	23,658	13,850	969,028
Gross carrying amounts as at 31 December 2018	55,467,126	1,406,972	823,653	57,697,751

24 FINANCIAL ASSETS AT AMORTIZED COST

	As at 31 December 2018	2017
Government bonds	23,217,555	N/A
Bonds issued by policy banks	30,728,159	N/A
Bonds issued by financial institutions	818,469	N/A
Deposit certificates issued by other financial institutions	1,177,465	N/A
Assets backed securities	282,326	N/A
Corporate bonds	2,498,933	N/A
Trust and asset management plans (i)	20,335,180	N/A
Total	79,058,087	N/A
Interest receivable	1,601,625	N/A
Less: ECL allowance	(301,487)	N/A
Total	80,358,225	N/A

(i) Certain trust companies and securities companies make investment decisions for trust and asset management plans and also take responsibilities for the management of these products. These products are ultimately invested in trust loans, bills, bonds and priority shares of structured entities.

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

24 FINANCIAL ASSETS AT AMORTIZED COST (CONTINUED)

(a) Financial assets measured at amortised cost analysed by issuer are as follows:

	As at 31 December 2018	2017
By issuer:		
– Government	23,217,555	N/A
– Banks and other financial institutions	53,341,599	N/A
– Others	2,498,933	N/A
Interest receivable	1,601,625	N/A
Total	80,659,712	N/A
Less: ECL allowance	(301,487)	N/A
Total	80,358,225	N/A

(b) Movements in ECL allowance are summarised as follows:

	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
ECL allowance as at 1 January 2018 (restated)	428,572	–	68,481	497,053
New financial assets originated or purchased	3,327	–	–	3,327
Derecognition or Settlements	(179,674)	–	(24,349)	(204,023)
Remeasurement				
– Update on the model	(20,385)	–	–	(20,385)
– Stage Transfer	(41,820)	67,335	–	25,515
Transfers:	38,627	5,505	(44,132)	–
Transfer from Stage I to Stage II	(5,505)	5,505	–	–
Transfer from Stage I to Stage III	–	–	–	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	–	–	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	44,132	–	(44,132)	–
ECL allowance as at 31 December 2018	228,647	72,840	–	301,487

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

24 FINANCIAL ASSETS AT AMORTIZED COST (CONTINUED)

(c) The movements in gross carrying amounts are summarised as follows:

	Stage I 12-month ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	Total
Gross carrying amounts as at 1 January 2018 (restated)	97,807,133	–	488,396	98,295,529
New financial assets originated or purchased	6,222,311	–	–	6,222,311
Derecognition	(25,309,753)	–	(150,000)	(25,459,753)
Transfers:	(211,604)	550,000	(338,396)	–
Transfer from Stage I to Stage II	(550,000)	550,000	–	–
Transfer from Stage I to Stage III	–	–	–	–
Transfer from Stage II to Stage I	–	–	–	–
Transfer from Stage II to Stage III	–	–	–	–
Transfer from Stage III to Stage II	–	–	–	–
Transfer from Stage III to Stage I	338,396	–	(338,396)	–
Change of interest accrued	1,601,099	526	–	1,601,625
Gross carrying amounts as at 31 December 2018	80,109,186	550,526	–	80,659,712

25 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets comprise the following:

	As at 31 December 2018	2017
Debt securities at fair value issued by:		
– Government	N/A	4,784,494
– Policy banks	N/A	23,296,485
– Other banks and non-bank financial institutions	N/A	5,405,690
– Corporate	N/A	3,618,700
Subtotal	N/A	37,105,369
Funds and other investments at fair value	N/A	31,720,041
Financial investments at cost:		
– Equity investment	N/A	41,154
– Other investment	N/A	10,000
Subtotal	N/A	51,154
Total	N/A	68,876,564

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

26 HELD-TO-MATURITY INVESTMENTS

	As at 31 December	
	2018	2017
Debt securities issued by:		
– Government	**N/A**	22,497,872
– Policy banks	**N/A**	32,908,394
– Other banks and non-bank financial institutions	**N/A**	2,206,025
– Corporate	**N/A**	2,300,798
Subtotal	**N/A**	59,913,089
Allowance for impairment losses — collectively assessed	**N/A**	(10,101)
Total	**N/A**	59,902,988
Market value of listed debt securities	**N/A**	59,339,547

27 INVESTMENT CLASSIFIED AS RECEIVABLES

	As at 31 December	
	2018	2017
Trust fund plans and asset management plans	**N/A**	91,345,523
Allowance for impairment losses	**N/A**	(426,198)
Including: Individually assessed	**N/A**	(167,174)
Collectively assessed	**N/A**	(259,024)
Total	**N/A**	90,919,325

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

28 PROPERTY AND EQUIPMENT

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost						
At 1 January 2018	4,229,463	231,165	549,669	1,268,693	72,711	6,351,701
Additions	569,200	217,787	10,614	76,214	6	873,821
Transfer from construction in progress	174,827	(186,211)	11,228	156	-	-
Other transfer-in	22,088	-	-	-	-	22,088
Disposals	(6,736)	-	(14,428)	(95,099)	(4,879)	(121,142)
Other transfer-out	(13,656)	(58,448)	-	-	-	(72,104)
At 31 December 2018	4,975,186	204,293	557,083	1,249,964	67,838	7,054,364
Accumulated depreciation						
At 1 January 2018	2,971,902	-	378,197	925,166	63,934	4,339,199
Charge for the year	234,177	-	82,963	130,208	1,018	448,366
Other transfer-in	880	-	-	-	-	880
Disposals	(6,111)	-	(4,951)	(87,852)	(3,402)	(102,316)
Other transfer-out	(13,506)	-	-	-	-	(13,506)
At 31 December 2018	3,187,342	-	456,209	967,522	61,550	4,672,623
Net book value						
At 31 December 2018	1,787,844	204,293	100,874	282,442	6,288	2,381,741
At 1 January 2018	1,257,561	231,165	171,472	343,527	8,777	2,012,502

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

28 PROPERTY AND EQUIPMENT (CONTINUED)

	Properties and buildings	Construction in progress	Leasehold improvements	Office equipment	Motor vehicles	Total
Cost						
At 1 January 2017	3,945,362	255,752	563,358	1,216,196	72,469	6,053,137
Additions	88,464	236,801	30,704	71,417	3,014	430,400
Transfer from construction in progress	105,219	(165,907)	27,819	32,869	–	–
Acquisition of a subsidiary	95,107	3,875	–	10,068	668	109,718
Disposals	(110)	–	(3,264)	(61,857)	(3,440)	(68,671)
Other transfer-out	(4,579)	(99,356)	(68,948)	–	–	(172,883)
At 31 December 2017	4,229,463	231,165	549,669	1,268,693	72,711	6,351,701
Accumulated depreciation						
At 1 January 2017	2,786,179	–	344,899	831,877	64,833	4,027,788
Charge for the year	190,363	–	71,196	151,752	2,527	415,838
Disposals	(110)	–	(3,264)	(58,463)	(3,426)	(65,263)
Other transfer-out	(4,530)	–	(34,634)	–	–	(39,164)
At 31 December 2017	2,971,902	–	378,197	925,166	63,934	4,339,199
Net book value						
At 31 December 2017	1,257,561	231,165	171,472	343,527	8,777	2,012,502
At 1 January 2017	1,159,183	255,752	218,459	384,319	7,636	2,025,349

The original value and net value of the fixed assets that have been used but are in the process of applying for the right certificates and that have been used but have not yet applied for the right certificates are listed as follows:

	As at 31 December	
	2018	2017
Original value	**823,274**	886,045
Net value	**129,386**	172,509

Management expects that the aforesaid matter would not affect the rights of the Group to these assets or have any significant impact on the business operation of the Group.

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

29 GOODWILL

	At 1 January 2018	Additions	At 31 December 2018
Zhuzhou Rural Commercial Bank	382,216	–	382,216
Impairment allowance (i)	–	(124,160)	(124,160)
	382,216	(124,160)	258,056

	At 1 January 2017	Additions	At 31 December 2017
Zhuzhou Rural Commercial Bank	–	382,216	382,216
Impairment allowance (i)	–	–	–
	–	382,216	382,216

(i) Impairment

The recoverable amount of the asset group is based on the five-year budget approved by the management, which is then estimated based on a fixed growth rate (as described in the table below) and calculated using the cash flow forecast method.

The assumptions of the future cash flow discount method are as follows:

	As at 31 December 2018	As at 31 December 2017
Growth rate	3%	3%
Discount rate	15%	15%

The growth rate is the weighted average growth rate used by the Group to forecast the cash flow after five years, which is consistent with the forecast data contained in the industry report and does not exceed the long-term average growth rate of each business. The management uses the interest rate of profit-before-tax as the discount rate which can reflect the specific risks of the relevant asset groups and the portfolio of asset groups. The above assumptions are used to analyse the recoverable amounts of each asset group and portfolio of asset groups within the business division.

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

30 DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset income tax assets against income tax liabilities and when the deferred income taxes are related to income taxes levied by the same taxation authority. The deferred tax assets and liabilities recognised are as follows:

	31 December 2018		31 December 2017	
	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference	Deferred tax assets/ (liabilities)	Deductible/ (taxable) temporary difference
Deferred income tax assets:				
Impairment allowances for assets	3,351,320	13,405,283	2,440,003	9,760,012
Provisions	98,254	393,017	1,173	4,690
Financial assets at fair value through other comprehensive income – expected credit losses	192,752	771,006	N/A	N/A
Loans and advances to customers at fair value through other comprehensive income – expected credit losses	67,932	271,729	N/A	N/A
Loans and advances to customers at fair value through other comprehensive income – fair value changes	5,506	22,023	N/A	N/A
Financial assets at fair value through profit or loss – fair value changes	440	1,759	81,607	326,428
Staff salary and welfare payable	435,791	1,743,165	304,555	1,218,220
Available-for-sale financial assets – fair value changes	N/A	N/A	674,576	2,698,303
Others	43,305	173,216	133,042	532,168
Subtotal	4,195,300	16,781,198	3,634,956	14,539,821
Deferred income tax liabilities:				
Unrealized gains of foreclosed assets	(162)	(646)	(211)	(844)
Financial assets at fair value through profit or loss – fair value changes	(287,237)	(1,148,946)	–	–
Financial assets at fair value through other comprehensive income – expected credit losses	(192,752)	(771,006)	N/A	N/A
Financial assets at fair value through other comprehensive income – fair value changes	(104,490)	(417,959)	N/A	N/A
Loans and advances to customers at fair value through other comprehensive income – expected credit losses	(67,932)	(271,729)	N/A	N/A
Subtotal	(652,573)	(2,610,286)	(211)	(844)
Net deferred income tax	3,542,727	14,170,912	3,634,745	14,538,977

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

30 DEFERRED INCOME TAXES (CONTINUED)

The movements for deferred tax assets and liabilities recognised are as follows:

	As at 31 December	
	2018	2017
Balance at the end of the last year	**3,634,745**	3,273,111
Impact on accounting policy changes	**148,874**	–
Restated balance at the beginning of the year	**3,783,619**	3,273,111
Charged to profit or loss	**560,303**	(84,747)
Charged to other comprehensive income	**(801,195)**	436,630
Acquisition of a subsidiary	**–**	9,751
At the end of the year	**3,542,727**	3,634,745

31 OTHER ASSETS

	As at 31 December	
	2018	2017
Intangible Assets (a)	**1,119,567**	389,442
Investment properties	**149,013**	178,364
Repossessed assets (b)	**242,475**	558,560
Receivables and payments (c)	**4,698,721**	477,294
Assets to be settled	**297,366**	297,366
Long-term deferred expenses	**137,785**	43,443
Settlement and clearing accounts	**423,285**	534,371
Prepayment of properties and buildings	**567,555**	–
Prepayment of investments	**–**	70,000
interest receivable	**143,902**	5,767,694
Others	**41,890**	158,002
Total	**7,821,559**	8,474,536
Less: Allowance for impairment losses	**(629,927)**	(672,100)
Total	**7,191,632**	7,802,436

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

31 OTHER ASSETS (CONTINUED)

(a) Intangible assets

	Land use rights	Other intangible assets	Total
Cost			
At 1 January 2018	197,889	414,259	612,148
Additions	759,675	81,783	841,458
Transfer from construction in progress	–	4,896	4,896
Disposal	(175)	(6,421)	(6,596)
At 31 December 2018	957,389	494,517	1,451,906
Accumulated amortisation			
At 1 January 2018	16,518	206,188	222,706
Amortisation for the year	5,488	104,394	109,882
Disposal	(88)	(161)	(249)
At 31 December 2018	21,918	310,421	332,339
Net book value			
At 31 December 2018	935,471	184,096	1,119,567
At 1 January 2018	181,371	208,071	389,442

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

31 OTHER ASSETS (CONTINUED)

(a) Intangible assets (continued)

	Land use rights	Other intangible assets	Total
Cost			
At 1 January 2017	38,093	250,451	288,544
Additions	–	61,652	61,652
Transfer from construction in progress	–	95,735	95,735
Acquisition of a subsidiary	160,053	6,421	166,474
Disposal	(257)	–	(257)
At 31 December 2017	197,889	414,259	612,148
Accumulated amortisation			
At 1 January 2017	15,521	134,553	150,074
Amortisation for the year	1,118	71,635	72,753
Disposal	(121)	–	(121)
At 31 December 2017	16,518	206,188	222,706
Net book value			
At 31 December 2017	181,371	208,071	389,442
At 1 January 2017	22,572	115,898	138,470

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

31 OTHER ASSETS (CONTINUED)

(b) Repossessed assets

	As at 31 December	
	2018	2017
Houses and buildings	**222,134**	392,932
Land use rights	**18,941**	9,727
Others	**1,400**	155,901
Total	**242,475**	558,560
Less: Allowance for impairment losses	**(65,639)**	(178,007)
Total	**176,836**	380,553

Movements of allowance for repossessed assets are as follows:

	Houses, buildings and land use rights	Others	Total
At 1 January 2017	82,842	260	83,102
Charge for the year	–	129,802	129,802
Transfer out	(34,897)	–	(34,897)
At 31 December 2017	47,945	130,062	178,007
Impact of IFRS 9	–	(127,227)	(127,227)
Restated balance at the beginning of the year	47,945	2,835	50,780
Charge for the year	14,739	120	14,859
At 31 December 2018	62,684	2,955	65,639

(c) Receivables and payments

In December 2018, pursuant to the approval of the Board of Directors, the Bank signed sponsorship and related agreements (the "Agreements") for three rural commercial banks to be restructured from rural credit cooperatives (the "Restructure"). According to the Agreements, as of 31 December 2018, the Bank made a total payment of investment of RMB4,291,824 thousands. According to the terms of the Agreements, the above payments can be refunded if the Restructure cannot be completed. As at 31 December 2018, the Restructure was not yet completed and the Bank accounted for those amounts in other assets.

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

32 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2018	2017
Deposits:		
Banks operating in Mainland China	**29,547,621**	29,981,660
Other financial institutions operating in Mainland China	**33,059,511**	13,488,505
Interest payable	**608,833**	N/A
Total	**63,215,965**	43,470,165

As at 31 December 2018, the deposits arising from wealth management products with the principal amounts guaranteed by the Group amounted to RMB1,513,750 thousands (2017: RMB2,914,000 thousands).

33 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at 31 December	
	2018	2017
Placements:		
Banks operating in Mainland China	**480,817**	1,565,556
Other financial institutions operating in Mainland China	**–**	200,000
Banks operating outside Mainland China	**1,046,659**	1,806,877
Interest payable	**26,107**	N/A
Total	**1,553,583**	3,572,433

34 REPURCHASE AGREEMENTS

	As at 31 December	
	2018	2017
Repurchase agreements analysed by counterparty:		
Banks operating in Mainland China	**11,807,250**	23,829,470
Interest payable	**10,526**	N/A
Total	**11,817,776**	23,829,470
Repurchase agreements analysed by collateral:		
Securities	**11,807,250**	23,829,470
Interest payable	**10,526**	N/A
Total	**11,817,776**	23,829,470

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

35 CUSTOMER DEPOSITS

	As at 31 December	
	2018	2017
Demand deposits:		
Corporate customers	**124,035,104**	119,803,153
Personal customers	**99,200,462**	92,918,339
	223,235,566	212,721,492
Time deposits:		
Corporate customers	**127,713,259**	100,321,436
Personal customers	**140,860,909**	119,845,949
	268,574,168	220,167,385
Pledged deposits	**13,216,853**	11,443,908
Other deposits (i)	**37,308,575**	44,339,071
Total	**542,335,162**	488,671,856

(i) As at 31 December 2018, the deposits arising from wealth management products with the principal amounts guaranteed by the Group amounted to RMB27,392,510 thousands (2017: RMB33,047,430 thousands).

36 DEBT SECURITIES ISSUED

	As at 31 December	
	2018	2017
2014 tier two capital bonds (a)	**4,098,047**	4,097,633
2018 tier two capital bonds (a)	**9,998,617**	–
Interbank negotiable certificates of deposit ("NCD") (b)	**51,326,856**	97,286,144
Interest payable	**451,915**	N/A
Total	**65,875,435**	101,383,777

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

36 DEBT SECURITIES ISSUED (CONTINUED)

(a) Tier two capital bonds

Pursuant to the approval of the PBOC and the CBIRC, the Bank issued tier two capital bonds in an amount of RMB4.1 billion in the domestic interbank bond market on 11 September 2014. The bonds have a maturity of 10 years, with a fixed coupon rate of 6.26% and annual interest payment on 15 September. The principal is repaid upon its maturity and the Bank has the option to early redeem the bonds at the end of the fifth year. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory trigger event occurs. Any accumulated unpaid interest will not be needed to be paid.

Pursuant to the approval of the PBOC and the CBIRC, the Bank issued tier two capital bonds in an amount of RMB10 billion in the domestic interbank bond market on 23 March 2018. The bonds have a maturity of 10 years, with a fixed coupon rate of 4.90% and annual interest payment on 23 March. The principal is repaid upon its maturity and the Bank has the option to early redeem the bonds at the end of the fifth year. These eligible Tier 2 capital bonds have the write-down feature of a Tier 2 capital instrument, which allows the Bank to write down the entire principal of the bonds when a regulatory trigger event occurs. Any accumulated unpaid interest will not be needed to be paid.

(b) Interbank negotiable certificates of deposit

As at 31 December 2018 and 2017, the outstanding balance was RMB51,326,856 thousands and RMB97,286,144 thousands, with the interest rate ranging from 3.20% to 5.12% and from 4.20% to 5.00%, and the amount would mature in 2019 and 2018 respectively.

37 OTHER LIABILITIES

	As at 31 December	
	2018	2017
Interest payable (a)	**N/A**	7,944,259
Salaries, bonuses, allowances and subsidies payable (b)	**2,621,980**	1,875,948
Sundry tax payables	**554,660**	447,548
Provisions	**393,017**	4,690
Non-performing assets collection (c)	**639**	17
Guarantee deposits from lessees (d)	**1,340,906**	894,705
Borrowings from other banks (e)	**9,435,006**	9,092,320
Settlement and clearing accounts	**3,502,534**	3,340,110
Deferred revenue	**242,437**	330,065
Payables for commission funds	**25,000**	90,565
Deposits and guarantees received	**39,804**	38,569
Deposit insurance premium payable	**50,000**	36,177
Collection of repossessed assets	**15,000**	15,000
Payable in relation to agency services	**–**	29,500
Others	**538,283**	474,481
Total	**18,759,266**	24,613,954

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

37 OTHER LIABILITIES (CONTINUED)

(a) Interest payable

	As at 31 December	
	2018	2017
Deposits and placements from banks and other financial institutions	**N/A**	241,075
Due to customers	**N/A**	7,518,586
Borrowings from other banks	**N/A**	84,343
Repurchase agreements	**N/A**	24,226
Bonds payable	**N/A**	74,859
Others	**N/A**	1,170
Total	**N/A**	7,944,259

(b) Salaries, bonuses, allowances and subsidies payable

	As at 31 December	
	2018	2017
Salaries, bonuses and allowances	**1,823,668**	1,207,087
Social insurance	**4,122**	5,387
Housing fund	**447**	641
Employee benefits	**2,440**	396
Labor union expenditure and education costs	**121,826**	100,121
Defined contribution plans	**470**	689
Defined benefit plans		
– Supplemental retirement benefits (i)	**554,531**	455,173
Early retirement benefits	**114,476**	106,419
Others	**–**	35
Total	**2,621,980**	1,875,948

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

37 OTHER LIABILITIES (CONTINUED)

(b) Salaries, bonuses, allowances and subsidies payable (continued)

(i) Supplemental retirement benefits

The movement of supplementary retirement benefits of the Group are as follows:

	As at 31 December	
	2018	2017
At 1 January	**455,173**	459,640
Benefits paid during the year	**(25,215)**	(23,550)
Defined benefit cost recognised in profit or loss	**41,528**	53,433
Defined benefit cost recognised in other comprehensive income	**83,045**	(34,350)
At 31 December	**554,531**	455,173

The principal actuarial assumptions adopted at the end of 2018 and 2017 are as follows:

	As at 31 December	
	2018	2017
Discount rate		
– Normal retirees	**3.46%**	4.10%
– Early retirees	**3.52%**	4.35%
Expected growth rate of benefits	**0-5%**	0–5%
Age of retirement		
– Male	**60**	60
– Female	**50/55**	50/55

Assumptions regarding future mortality are based on the China Life Insurance Mortality table, which is published statistics in Mainland China.

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

37 OTHER LIABILITIES (CONTINUED)

(b) Salaries, bonuses, allowances and subsidies payable (continued)

(i) Supplemental retirement benefits (continued)

The sensitivity of the present value of supplemental retirement benefit obligations to changes in the weighted principal assumption is:

	Discount rate As at 31 December	
	2018	2017
Change in basis points		
+50 basis points	**(37,929)**	(28,506)
–50 basis points	**42,813**	31,969

	Growth rate As at 31 December	
	2018	2017
Change in basis points		
+50 basis points	**44,066**	31,088
–50 basis points	**(39,387)**	(27,991)

(c) Non-performing assets collection

The promoters acquired certain non-performing assets of the Group during the Group's restructuring and resolved to donate to the Group net proceeds received from the disposal of non-performing assets which were entrusted to be managed by the Group. Up to 31 December 2018, the Bank has received accumulative proceeds of RMB2,401,182 thousands (31 December 2017: RMB2,121,304 thousands) from the non-performing assets. The donation procedures of these proceeds amounting to RMB2,400,543 thousands have been completed (31 December 2017: RMB2,121,287 thousands). After deducting income tax of RMB306,013 thousands (31 December 2017: RMB306,013 thousands), the net accumulative proceeds amounting to RMB2,094,530 thousands as at 31 December 2018 (31 December 2017: RMB1,815,274 thousands) have been recorded as capital reserve, and the remaining proceeds amounting to RMB639 thousands were recorded as other liabilities and pending for completion of the donation procedures as at 31 December 2018 (31 December 2017: RMB17 thousands).

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

37 OTHER LIABILITIES (CONTINUED)

(d) Guarantee deposits from lessees

The wholly-owned subsidiary of the Bank, Zhujiang Financial Leasing Co., Ltd., received deposits from lessees when entering into the finance lease contracts. These deposits are interest-free and will be repaid upon maturity of the lease contracts.

(e) Borrowings from other banks

As at 31 December 2018, the wholly-owned subsidiary of the Bank, Zhujiang Financial Leasing Co., Ltd., borrowed long-term and short-term loans for its leasing operation business, with maturity ranging from 2 to 60 months (31 December 2017: from 1 to 36 months) and fixed interest rates ranging from 3.61% to 6.05% (31 December 2017: from 4.80% to 6.00%).

38 SHARE CAPITAL

All shares of the Bank issued are fully paid ordinary shares, with par value of RMB1 per share. The Bank's number of shares is as follows:

	31 December 2018		31 December 2017	
	Number of shares '000	Nominal value	Number of shares '000	Nominal value
Opening balance	9,808,269	9,808,269	8,153,419	8,153,419
Issuance of shares	–	–	1,654,850	1,654,850
As at 31 December 2018/ 31 December 2017	9,808,269	9,808,269	9,808,269	9,808,269

In June 2017, 1,439,000 thousands ordinary shares with par value of RMB1 were issued at HK$5.10 per share in an initial public offering on The Stock Exchange of Hong Kong Limited. In July 2017, the Bank fully exercised the Over-allotment Option and issued 215,850 thousands additional shares with par value of RMB1 at HK$5.10 per share on The Stock Exchange of Hong Kong Limited. The premium arising from the issuance of new shares was recorded in capital reserve.

39 RESERVES

(a) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of par value and shareholders' donation.

(b) Surplus reserve

The Bank is required to appropriate 10% of its profit for the year pursuant to the Company Law of the People's Republic of China and the Articles of association to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses of the Bank, if any, and may also be converted into capital of the Bank, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

For the year ended 31 December 2018, an appropriation of 10% of the profit of the Group determined under generally accepted accounting principles of the PRC ("PRC GAAP") was made to the statutory surplus reserve, in the amount of RMB621,141 thousands (2017: RMB577,286 thousands).

(c) General reserve

Pursuant to the relevant regulations issued by the Ministry of Finance (the "MOF"), the Bank and its subsidiaries are required to maintain a general reserve within equity, through the appropriation of net profit, which, starting from 1 July 2012, which should not be less than 1.5% of the year-end balance of their respective risk assets as defined by the regulations.

During the year ended 31 December 2018, the Group transferred RMB730,327 thousands (2017: RMB697,785 thousands) to the General Reserve pursuant to the regulatory requirements in the PRC and the reserve has reached 1.5% of the year-end balance of its risk assets as required on 31 December 2018 and 31 December 2017.

(d) Investment revaluation reserve

The investment revaluation reserve records the fair value changes and expected credit losses of financial assets at fair value through other comprehensive income.

(e) Remeasurement gains/losses on defined benefit plans

Remeasurement gains/losses on defined benefit plans are the actuarial gains or losses of supplemental retirement benefits.

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

40 COMPONENTS OF OTHER COMPREHENSIVE INCOME

	As at 31 December	
	2018	2017
Remeasurement gains on defined benefit plans	**(83,045)**	34,350
Financial assets at fair value through other comprehensive income: changes in the amount for the period	**3,525,662**	N/A
Less:		
Transfer to profit or loss upon disposal	**320,882**	N/A
Income tax effect	**801,195**	N/A
Available-for-sale financial assets: changes in fair value	**N/A**	(2,144,630)
Less:		
Transfer to profit or loss upon disposal Income tax effect	**N/A**	(398,111)
Income tax effect	**N/A**	(436,630)
Total	**2,320,540**	(1,275,539)

41 ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

On the consolidated statement of cash flows, cash and cash equivalents have an original maturity of less than three months and include the following:

	As at 31 December	
	2018	2017
Cash on hand	**2,532,087**	2,443,043
Surplus reserves with central bank	**37,455,968**	29,874,989
Deposits with banks and other financial institutions	**7,598,357**	9,597,207
Placements with banks and other financial institutions	**2,327,896**	1,731,294
Reverse repurchase agreements	**27,405,309**	65,600,697
Total	**77,319,617**	109,247,230

42 TRANSFERS OF FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties or to special purpose entities. In some cases where these transferred financial assets qualify for derecognition, the transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the transferred assets do not qualify for derecognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets in the consolidated statement of financial position.

(a) Repurchase agreements

Transferred financial assets that do not qualify for derecognition mainly include securities held by counterparties as collateral under repurchase agreements. The carrying amount was nil as at 31 December 2018 (2017: RMB2,893,829 thousands) which the counterparties are allowed to sell or repledge those securities in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contracts.

(b) Bond lending arrangements

The Group entered into bond lending agreements with securities borrowers to lend out its bond securities classified as other debt investments of carrying amount totalling RMB1,042,906 thousands as at 31 December 2018. As stipulated in the bond lending agreements, the legal ownership of these bond securities was transferred to the borrowers. Although the borrowers were allowed to sell these bond securities during the covered period, they had obligations to return these bond securities to the Group at specified future dates and the maximum covered period was 21 days. The Group has determined that it retained substantially all the risks and rewards of these bond securities and therefore has not derecognised them in the consolidated financial statements.

(c) Securitisation transactions

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.

As at 31 December 2018, the carrying amount of the credit assets transferred by the Group to special purpose trust was RMB7,054,991 thousands before transfer (2017: RMB7,054,991 thousands). 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 RMB102,963 thousands (2017: RMB326,275 thousands), with a maximum loss exposure similar to the carrying amount.

(d) Transfer of beneficial rights of credit assets

In the course of beneficial rights of credit assets transfer transactions, the Group sells credit assets to special purpose trusts, which establish property rights trust schemes and subsequently sold the rights of the trust benefit to the investors. The Group may subscribe some shares in these trust schemes, 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.

As at 31 December 2018, the carrying amount of credit assets transferred by the Group to special purpose trust was RMB3,444,851 thousands before transfer (2017: RMB3,444,851 thousands). The Group has derecognised relevant credit assets. The carrying amount of the Group's share of the above beneficial rights of credit assets as at 31 December 2018 was nil (2017: nil).

43 INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES

The Group is principally involved with structured entities through financial investments, asset management and securitisation transactions. These structured entities generally finance the purchase of assets by issuing securities or by other means. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them. The interests held by the Group in the unconsolidated structured entities are set out below:

(a) Structured entities sponsored by the Group

In conducting wealth management business, the Group has established various structured entities to provide customers with specialised investment opportunities within narrow and well-defined objectives. During the year ended 31 December 2018, the Group recorded commission income as the manager of these wealth management products amounting to RMB82,746 thousands (2017: RMB188,922 thousands). The gains from the unconsolidated non-guaranteed wealth management products of the Group are the same as the Bank's maximum exposure to loss in such business. The Group considered its variable returns from its involvement with the structured entities are not significant and hence it does not consolidate these structured entities.

For the purpose of asset-liability management, the Group's unconsolidated structured entities may raise short-term financing needs to the Group and other banks. The Group is not contractually obliged to provide financing. The Group may enter into repurchase and placement transactions with these unconsolidated structured entities in accordance with market principles. As at 31 December 2018, there was no balance of the above repurchase and placement transactions (2017: nil). The maximum exposure to loss of those placements approximated the carrying amount.

As at 31 December 2018, the balance of the unconsolidated non-guaranteed wealth management products sponsored by the Group amounted to RMB77,630,363 thousands (2017: RMB123,449,770 thousands).

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

43 INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

(b) Unconsolidated structured entities invested by the Group

As at 31 December 2018 the Group invests in a number of unconsolidated structured entities mainly consisting of asset-backed securities, funds, wealth management products, trust plans and the asset management plans sponsored and managed by other independent third parties.

The table below sets out the carrying value and the Group's maximum exposure to these unconsolidated structured entities.

At 31 December 2018	Carrying value	Maximum exposure to loss
Financial assets at fair value through profit or loss		
Trust plans and asset management plans	43,363,012	43,363,012
Fund investments	28,769,701	28,769,701
Other investments	1,923,591	1,923,591
Subtotal	74,056,304	74,056,304
Financial assets at fair value through other comprehensive income		
Trust plans and asset management plans	10,654,695	10,654,695
Other investments	109,335	109,335
Subtotal	10,764,030	10,764,030
Financial assets at amortised cost		
Trust plans and asset management plans	20,041,012	20,041,012
Other investments	282,301	282,301
Subtotal	20,323,313	20,323,313

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

43 INTERESTS IN THE UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

(b) Unconsolidated structured entities invested by the Group (continued)

At 31 December 2017	Carrying value	Maximum exposure to loss
Financial assets at fair value through profit or loss		
Trust plans and asset management plans		
Fund investments	7,582,116	7,582,116
Other investments	287,407	287,407
Subtotal	7,869,523	7,869,523
Available-for-sale financial assets		
Trust plans and asset management plans	26,610,041	26,610,041
Other investments	5,412,272	5,412,272
Subtotal	32,022,313	32,022,313
Held-to-maturity investments		
Other investments	276,000	276,000
Investment classified as receivables		
Trust plans and asset management plans	90,919,325	90,919,325

44 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

At any given time, the Group has outstanding commitments to extend credit. These commitments are in the form of approved loans and undrawn credit card limits.

The Group provides letters of credit and financial guarantees to guarantee the performance of customers to third parties.

Bank acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by category are set out below. The amounts disclosed in respect of loan commitments and undrawn credit card limits are under the assumption that the amounts will be fully advanced. The amounts for bank acceptances, letters of credit and guarantees represent the maximum potential losses that would be recognised at the end of the year had the counterparties failed to perform as contracted.

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

44 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(a) Credit commitments (continued)

	As at 31 December	
	2018	2017
Bank acceptances	**9,968,108**	6,517,566
Letters of credit issued	**1,238,370**	1,636,634
Guarantees issued	**23,430,405**	14,924,292
Loan commitments (i)	**92,400,076**	87,366,353
Undrawn credit card limits	**13,685,268**	11,723,184
Total	**140,722,227**	122,168,029
Allowance for credit commitments	**392,569**	–

(i) Loan commitments of the Group are the unconditionally revocable loan commitments.

(b) Operating lease commitments

During the year, the Group leased certain of their office properties under operating lease arrangements, and the total future minimum lease payments in respect of non-cancellable operating leases are as follows:

	As at 31 December	
	2018	2017
Within one year	**268,567**	275,655
After one year but not more than two years	**218,514**	232,948
After two years but not more than three years	**182,328**	195,693
After three years	**385,654**	476,387
Total	**1,055,063**	1,180,683

(c) Capital commitments

At the end of the year, the Group had capital commitments as follows:

	As at 31 December	
	2018	2017
Contracted, but not provided for	**137,792**	157,963

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

44 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(d) Credit risk-weighted amount of financial guarantees and credit related commitments

	As at 31 December	
	2018	2017
Financial guarantees and credit related commitments	**22,164,427**	16,577,622

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

(e) Legal proceedings

As at 31 December 2018, the total claimed amounts of the litigation cases of which the Bank or its subsidiaries are the defendant amounted to RMB448 thousands (2017: RMB4,690 thousands). In the opinion of management, the Bank has made adequate provisions for any probable losses based on the current facts and circumstances. The litigation cases are not expected to have a significant impact on the Bank's business, financial condition and performance.

(f) Cooperation fund commitment

As a result of the subscription of shares in the cooperation risk fund established by Asia Financial Cooperation Association, the Bank had bailout commitments to the Association members amounting of nil as at 31 December 2018 (2017: RMB90,000 thousands).

45 FIDUCIARY ACTIVITIES

The Group operates designated loans. The designated loans represent the loans granted to specific borrowers designated by the trustors on their behalf according to the entrusted agreements signed by the Group and the trustors. The Group only acts on behalf of trustors and assists them to take back loans. Risks remain to trustor while the Group charges commission fee for the business. Designated loans are not included in the Group's consolidated balance sheet.

The Group manages assets for customers as an agent, which does not include in the Group's consolidated balance sheet. The Group only charges fees according to agent agreement and bears no risk and takes no benefit of these assets.

	As at 31 December	
	2018	2017
Designated deposits	**(12,869,093)**	(21,814,375)
Designated loans	**12,869,093**	21,814,375

45 FIDUCIARY ACTIVITIES (CONTINUED)

Entrusted wealth management refers to service that the Group making investments and manages principal on behalf of customers within agreed investment plans and methods, and earnings will be paid to customers in accordance with terms of agreements and actual earnings. By 31 December 2018 and 31 December 2017, entrusted wealth management service of the Group amounted to RMB77,630,363 thousands and RMB123,449,770 thousands respectively.

46 ASSETS PLEDGED AS SECURITY

(a) Financial assets which have been pledged

Some financial assets of the Group have been pledged as security for liabilities or contingent liabilities, mainly arising from repurchase agreements, time deposits and borrowings from the Central Bank.

As at 31 December 2018 and 2017, financial assets of the Group including securities, bills and loans have been pledged as security for liabilities or contingent liabilities, mainly arising from repurchase agreements, time deposits and borrowings from the Central Bank. As at 31 December 2018 and 2017, the carrying value of the financial assets of the Group pledged as security amounted to approximately RMB17,679,550 thousands and RMB25,633,386 thousands.

(b) Collateral received

In accordance with the terms of the reverse repurchase agreements, the Group holds collaterals which can be sold or reused for collaterals. As at 31 December 2018 and 2017, the fair value of collaterals of the Group amounted to approximately nil and RMB20,969,317 thousands respectively. As at 31 December 2018 and 2017, the fair values of collaterals of the Group which have been pledged again but are obligated to be returned at the due date amounted to approximately nil and RMB140,057 thousands respectively.

47 RELATED PARTY DISCLOSURES

(a) Related party relationships

On 31 December 2018 and 31 December 2017, there is no shareholder directly or indirectly holding 5% or above shares of the Bank.

(b) Related party transactions

Related party transactions of the Bank mainly include loans and deposits. Transactions between the Bank and its related parties follow general business terms and normal procedures and their pricing principle is the same as with independent third parties.

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

47 RELATED PARTY DISCLOSURES (CONTINUED)

(b) Related party transactions (continued)

(i) Transactions between the Bank and major shareholders and the companies controlled or jointly controlled by major shareholders

Major shareholders include shareholders of the Bank with a shareholding of 5% or above, or with the power to appoint a director in the Bank.

	As at 31 December	
Balances at the end of the year	**2018**	2017
Placements with banks and other financial institutions	**–**	348,000
Reverse repurchase agreements	**299,540**	589,952
Loans and advances to customers	**4,129,158**	3,972,000
Financial assets at fair value through other comprehensive income	**911,681**	N/A
Investment classified as receivables	**N/A**	844,000
Held-to-maturity investments	**N/A**	80,000
Interest receivables	**N/A**	21,550
Deposits from banks and other financial institutions	**82,128**	58,368
Customer deposits	**4,918,895**	5,035,330
Interest payables	**N/A**	6,010
Bank acceptance bills	**49,084**	125,097
Credit commitments	**2,112,450**	802,000

	Year ended 31 December	
Transactions during the year	**2018**	2017
Interest income	**306,198**	279,760
Interest expense	**163,022**	82,509
Fee and commission income	**7,496**	65,705

	Year ended 31 December	
Asset transfer	**2018**	2017
Transfer price	**58,063**	–
Book value	**58,063**	–

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

47 RELATED PARTY DISCLOSURES (CONTINUED)

(b) Related party transactions (continued)

(ii) Transactions between the Bank and subsidiaries

There are various related party transactions that occur between the Bank and its subsidiaries. These transactions are equitable and follow regular business procedures. The material balances and transactions with subsidiaries have been eliminated in full in the consolidated financial statements. In the opinion of management, the transactions between the Bank and subsidiaries have no significant impact on profit or loss.

(iii) Other related parties

Other related parties include the companies controlled or jointly controlled by the key management personnel and their close family members, and the companies of which key management personnel and their close family members were appointed as directors and key management personnel. During the year, the Group entered into transactions with other related parties in the ordinary course of business. Details are as follows:

	As at 31 December	
Balances at the end of the year	2018	2017
Loans and advances to customers	10,551,783	7,204,166
Interest receivables	N/A	11,719
Deposits from banks and other financial institutions	860	–
Customer deposits	4,375,240	5,433,409
Interest payable	N/A	407
Bank acceptance bills	742,769	741,771
Credit commitments	521,869	1,191,960

	Year ended 31 December	
Transactions during the year	2018	2017
Interest income	498,652	500,013
Interest expense	208,006	59,319
Fee and commission income	10,969	5,336

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

47 RELATED PARTY DISCLOSURES (CONTINUED)

(c) Key management personnel

Key management personnel refer to those have power and directly or indirectly are responsible for planning, instruction and control of the Group.

Total amount of remuneration of key management personnel is listed below:

	Year ended 31 December	
	2018	2017
Salary, remuneration and benefits	**24,282**	23,955

Transactions with key management personnel and their closed family members are listed below:

	As at 31 December	
Balances at the end of the year	**2018**	2017
Loans and advances to customers	**26,062**	31,973
Interest receivables	**N/A**	56
Customer deposits	**57,931**	100,637
Interest payables	**N/A**	512
Credit commitments	**9,144**	17,124

	Year ended 31 December	
Transactions during the year	**2018**	2017
Interest income	**1,328**	1,544
Interest expense	**2,800**	625

	Year ended 31 December	
Asset transfer	**2018**	2017
Transfer price	**–**	8,000
Book value	**–**	8,000

48 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risks or combination of risks. Managing those risks are crucial to the financial business, and risks are an inevitable consequence of being in business operation. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and control programs, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems.

A description and an analysis of the major risks faced by the Group are as follows:

The major types of risks are credit risk, market risk and liquidity risk. Market risk mainly consists of currency risk, interest rate risk and price risk.

The Board of Directors of the Group is responsible for determining the Group's overall risk preference. Within this framework, the senior management of the Bank designs risk management policies and procedures for credit risk, market risk and liquidity risk accordingly. After the policies and procedures are approved by the Board of Directors, relevant departments of the headquarters are responsible for their implementation.

The Board of Directors of the Group is responsible for setting the Group's overall risk tolerance, risk management and internal control strategies, supervising and ensuring that senior management performs risk management duties effectively. The Group has a Related Party Transactions and Risk Management Committee under the Board of Directors, which is responsible for monitoring the risk management of senior management, evaluating the Group's situation of risk management, risk tolerance ability and level regularly, and taking case precautions, reviewing and controlling the related party transactions. The Board of Supervisors is responsible for inspecting the Group's risk management and taking case precautions, comprehensively evaluating the risk management performance of the directors and senior management. Senior management is responsible for executing the policies of risk management and internal control approved by the Board of Directors and developing the specific rules and regulations of risk management. The Group has a Compliance and Risk Management Committee under senior management, which is responsible for reviewing the Group's significant matters of compliance and risk management.

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

The Compliance and Risk Management Department is the leading department of overall risk management, and is responsible for overall planning and coordination of risk management. The Risk Management Department, Credit Management Department, Legal and Compliance Department and Asset Management Department are primarily responsible for managing credit risk, market risk, operation risk and liquidity risk. The Internal Audit Department is responsible for supervising, inspecting, evaluating and reporting the risk management activities' effect independently and objectively.

(a) Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligations. Credit risk is often greater when counterparties are concentrated in one single industry or geographic location or have comparable economic features. In addition, different industrial sectors and geographic areas have their unique characteristics in terms of economic development, and could present a different credit risk.

(i) Credit Risk Management

Loans

The Group measures and manages the credit risk of its credit assets through the five-category system based on the "Guideline for Loan Credit Risk Classification" (the "Guideline") issued by the CBIRC. The Guideline requires commercial banks to classify their credit assets into five categories, namely pass, special-mention, sub-standard, doubtful and loss.

The five categories are defined by the Guideline as follows:

Pass: Loans for which borrowers can fulfil the terms of the contracts, and there is no reason to believe their ability to repay principal or interest of loans on a timely basis is in doubt.

Special-mention: loans for which borrowers are able to service the loans currently, although there exists some negative factors which may affect the borrower to repay the loans on time.

Substandard: Loans for which borrowers' ability to service loans is apparently in doubt and borrowers cannot rely on their proceeds from normal operations to repay the principal and interest of loans. Certain losses may be incurred by the Group even when guarantees are executed.

Doubtful: Loans for which borrowers cannot repay the principal and interest of loans in full and significant losses will be incurred by the Group even when guarantees are executed.

Loss: Principal and interest of loans cannot be recovered or only a small portion can be recovered after taking all possible measures and proceeding necessary legal procedures.

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Credit Risk Management (continued)

Loans (continued)

The Group exercises standardised credit management procedures, including credit investigation and proposals, credit limit review, loan disbursement, post lending monitoring, and management. The Group enhances its credit risk management by strict compliance with its credit management procedures to identify, measure, monitor and manage the potential credit risk, which includes:

- strengthening customer investigation, lending approval and post lending monitoring;
- setting up authorisation limits over loan review and approval;
- establishing the internal assessment system in respect of the credit rating towards different kinds of customers, as the fundamental procedures for granting credit;
- setting up the authority limit over risk classification of credit assets, reviewing periodically and update risk classification of credit assets, and carrying out on-site sample review and off-site review to monitor the risk; and
- implementing and continuously upgrading the Credit Management System based on the requirements of risk management, developing and popularising various risk management tools.

In respect of the corporate loans, credit managers of the Group are responsible for accepting application from the applicants, carrying out credit investigation and making recommendations on credit rating through credit risk assessment of the applicants and their business. According to the authority limit over credit review and approval, applications will be assessed and authorised at the branch level or/and head office level. The credit limit will be determined based on assessment of the factors including the applicant's credit rating, financial position, collateral and guarantee, the overall credit risk of the portfolio, macro-economic policies, and restriction imposed by laws and regulations. The Group minimises losses over credit risk through: (1) collecting; (2) restructuring; (3) repossessing the collateral or resourcing from the guarantor; (4) seeking arbitration or pursuing lawsuits; and (5) write off according to relevant regulations.

The Group writes off loans, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation to recover the loan.

The written off amount of such loans by the Group were RMB1,869,773 thousands and RMB1,289,781 thousands respectively in 2018 and 2017.

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(i) Credit Risk Management (continued)

Bonds and other bills

The Group manages the credit risk exposure of bonds and other bills through controlling the investment scale and based on issuer's credit rating and establishing post lending management standards. Generally, for foreign currency securities, only those with credit ratings (by Standard & Poor or equivalent agencies) equivalent to or higher than BBB can be invested. Investments in RMB debt securities are limited to those bonds with credit rating equivalent to or above BBB+ assigned by rating agencies recognised by the PBOC. For middle or long term RMB debt securities, their credit ratings granted by PBOC recognised agencies cannot be lower than A-. For short term RMB debt securities, their credit ratings granted by the PBOC recognised agencies cannot be lower than A-1.

Other financial assets carrying at amortized cost

Other financial assets carrying at amortized cost, include wealth management products, trust plans and asset management plans issued and managed by other banks and other financial institutions. The Group establishes a risk evaluation system on the trust companies, security companies and fund management companies, sets up credit limit for parties repurchasing trust beneficial rights, issuers of wealth management products, ultimate borrowers of asset management schemes, and performs ongoing post-lending monitoring on timely basis.

Inter-bank transactions

The Group reviews and monitors the credit risk of individual financial institutions on regularly basis. Limits are set for each individual bank or non-banking financial institution which has business relationship with the Group.

Credit commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Letters to guarantee issued, acceptances, bill acceptance and letters of credit, which represent irrevocable commitment that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. When the amount of credit commitment exceeds the original credit limit, margin deposits are required to mitigate the credit risk. The Group's exposure of credit risk is equivalent to the total amount of credit commitments.

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(ii) Risk limit control and mitigation policies

The Group manages and limits the concentrations of credit risk, including concentration to individual counterparty, group, industry and region.

The Group continuously optimizes the credit risk structure by setting limits on the borrower, Group of borrowers, geographical and industry segments. Concentration risks are monitored on ongoing basis and subject to an annual or more frequent review where necessary.

The Group manages the exposure to credit risk through regular analyses of borrowers and potential borrowers' abilities to fulfil interest and principal repayment obligations and amends the lending limits where appropriate.

The Group has established relevant policies to mitigate credit risk. One of the most important measures is to obtain collateral, pledged assets, guarantee deposits or guarantees from corporates or individuals. The Group provides guidelines on the acceptance of specific classes of collateral. The principal types of collateral for loans and advances are:

- Residential property and land use right;
- Commercial assets, such as commercial property, inventory and accounts receivables;
- Financial instruments, such as debt securities and equity shares.

Fair value of collateral is usually required to be assessed by professional valuer designated by the Group. When there is objective evidence of impairment, the value of collateral will be reviewed by the Group to assess whether it could sufficiently cover the credit exposure of relevant loans. To mitigate the credit risk, the Group has implemented loan-to-value ratio requirement based on type of collateral as follows:

Item	Maximum loan-to-value ratio
Residential properties	70%
Office building, Shops, Factories, Houses, Carports, Warehouses	50%
Land use rights	50%
Constructions In Process	45%
Automobiles	50%
Forest ownerships	40%

Fair value of collateral was determined by management based on the latest available external valuation results, taking into account experience adjustments for current market conditions and estimated expenses to be incurred in the disposal process.

For loans guaranteed by third parties, the Group will review the financial condition and credit history of guarantors and evaluate the ability of the guarantors to meet obligations on regular basis.

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

Stage I (not credit-impaired on initial recognition): 12-month expected credit losses (ECL);

Stage II (significant increase in credit risk since initial recognition): lifetime expected credit losses;

Stage III (credit- impaired assets): lifetime expected credit losses

The Group developed an impairment model to calculate expected credit losses in accordance with the new standards. A top-down development method was used to establish a logistic regression model of macroeconomic indicators and risk parameters.

Stage division

The assessment of significant increase in credit risk consider a number of factors such as five-category classification, overdue days, and credit rating changes. The stages are transferable.

Significant increase in Credit risk

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

Quantitative criteria

At the reporting date, the group has assessed the significant increase in credit risk through the relative change of the probability of default. The thresholds is set based on different product type, such as corporate loans, personal loans, securities investments, etc. For the financial instrument without overdue, the group has assessed changes of probability of default over the lifetime to identify increment of the default risk.

If the borrower fails to pay more than 30 days after the contractual payment date, the credit risk of the financial instrument is considered to be increased significantly.

Qualitative criteria

For corporate loan and bond investment portfolio, if borrowers was on the warning list or met one or more criteria as follows:

- The significant negative influences appears in business, financing or economic position for borrower

- Actual or expected extension or restructuring;

- Actual or expected significant adverse change on borrower's operations;

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment

Stage division (continued)

Significant increase in Credit risk (continued)

Qualitative criteria (continued)

- Collateral's valuation changes which expected to led the increase of default probability (only for collateralized and pledged loans);
- Indicator for cash flow or liquidity problems, e.g. extension for account payable or loan repayment

For corporate loan financial instruments, the Group uses a credit risk early warning monitoring system to assess whether there has been a significant increase in its credit risk. For bond investment related financial instruments, the Group strengthens the management of bond investment and assesses it periodically. For individual loan financial instruments, the Group assesses at the portfolio level on a quarterly basis whether there has been a significant increase in its credit risk. The criteria used to identify significant increases in credit risk are monitored and reviewed by risk management departments on timely basis.

In 2018, the Group did not consider any financial instruments as having low credit risk, so that its credit risk did not need to be evaluated on the reporting date, comparing with its initial recognition date.

Definition of default and credit impairment

When a financial instrument meets one or more of the following conditions, the Group defines the financial asset as default which is consistent with the definition of credit impairment:

Quantitative criteria

The borrower is more than 90 days overdue after payment of the contract.

Qualitative criteria

The borrower meets the "difficult to repay" criteria, indicating significant financial difficulties experienced by the borrower. Examples include:

- Significant financial difficulty of the issuer or the debtor;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- Debtors are in breach of contract;

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Stage division (continued)

Definition of default and credit impairment (continued)

Qualitative criteria (continued)

- The disappearance of an active market for some financial assets due to the borrower's financial difficulties;

- A purchased or originated credit-impaired financial asset;

These criteria apply to all financial instruments of the Group and are consistent with the definition of default used in internal credit risk management. The definition of default has been consistently applied to the model of Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) in the calculation of expected credit losses of the Group.

Explanation of inputs, assumptions and estimation techniques in the ECL models

The Expected Credit Losses (ECL) are measured on either a 12-month (12M) 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 defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Explanation of inputs, assumptions and estimation techniques in the ECL models (continued)

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month).

Forward-looking information should be considered in determining the 12-month and lifetime PD, EAD and LGD. This varies by product types.

The Group quarterly monitors and reviews the ECL calculation related assumptions, including the changes of PD and LGD for different terms.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Forward-looking information in the ECL models

The assessment of significant increase in credit risk and the calculation of ECL incorporates forward-looking information. In 2018, the Group obtained the key macroeconomic factors of the past 10 years from the Wind Economic to perform historical analysis on the intertemporal endogenous relationship of the macroeconomic factors. The Group integrates statistical analysis and expert judgements to determine economic forecasts and weighting scheme under various economic scenarios.

The Group has adopted three economic scenarios (Base, Pessimistic and Optimistic) on the basis of the macroeconomic information analysis and expert judgment. The weightings for the three scenarios are 55%, 40% and 5% respectively. Key macroeconomic assumptions are as follows:

Item	Range
Growth rate of Product Price Index (“PPI”)	1.52%~1.995%
Growth rate of Consumer Price Index (“CPI”)	-1.92%~-1.52%
Growth rate of Industrial Value Added (“IVA”)	4.56%~5.985%

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the nonlinearities and asymmetries within the Group’s different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Sensitivity analysis

The expected credit losses are sensitive to the parameters used in the model, macroeconomic variables for forward-looking prediction, scenarios weightings and other factors considered in the application of expert judgments. The changes in these parameters, assumptions, models and judgments will have an impact on the significant increase in credit risk and the measurement of expected credit losses.

As at 31 December 2018, the comparison between the ECL allowance under three different scenarios and the weighted average ECL allowance is as follows:

	Corporate Loans	Personal Loans	Financial Instrument
ECL under weighted average	8,909,228	4,383,441	1,072,518
ECL under base scenario	7,739,430	3,117,713	1,021,640
Difference in amount	1,169,798	1,265,728	50,878
Difference in percentage	13%	29%	5%

	Corporate Loans	Personal Loans	Financial Instrument
ECL under weighted average	8,909,228	4,383,441	1,072,518
ECL under optimistic scenario	7,171,591	2,673,669	993,077
Difference in amount	1,737,637	1,709,772	79,441
Difference in percentage	20%	39%	7%

	Corporate Loans	Personal Loans	Financial Instrument
ECL under weighted average	8,909,228	4,383,441	1,072,518
ECL under pessimistic scenario	10,734,904	6,337,538	1,152,407
Difference in amount	(1,825,676)	(1,954,097)	(79,889)
Difference in percentage	-20%	-45%	-7%

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Sensitivity analysis (continued)

Assuming that credit risk has changed significantly, which leads to financial assets and credit commitments in stage II moving into stage I, impact on the ECL allowance and provisions recognised in balance sheet is as follows:

	As at 31 December 2018
Total amount of ECL allowance and provisions, assuming that financial assets and credit commitments in stage II moving into stage I	11,728,620
Total amount of ECL allowance and provisions recognised in balance sheet	13,995,598
Difference in amount	(2,266,978)
Difference in percentage	-16%

Grouping for ECL allowance

The Group classified the exposures with similar characteristics when collectively assessing the ECL allowance.

The characteristics for grouping are as follows:

Personal loans

- Product types (for instance, personal business loans, personal consumption loans, personal residential mortgages, credit cards overdraft)

Corporate loans

- Industry

Exposures evaluated by impairment assessment

- Corporate loans in Stage III

Credit risk team monitors and reviews the grouping appropriateness regularly.

In 2017, the Group assessed the impairment of loans in terms of individual and portfolio assessments on balance sheet date.

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iii) Credit risk impairment (continued)

Individual assessment

The Group assesses whether objective evidence of impairment exists individually for corporate loans and discounted bills that are individually significant, and an impairment loss is estimated based on such individual assessment.

If there is objective evidence that an impairment loss on loans and advances has been incurred on an individual basis, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the credit asset's original effective interest rate. The allowance for the impairment loss is deducted in the carrying amount. In determining the allowance on an individual basis, the following factors are considered:

- the sustainability of the counterparty's business plan;
- its ability to improve performance once a financial difficulty has arisen;
- projected receipts and the expected dividend payout should bankruptcy ensue;
- the availability of other financial support and the realisable value of collateral; and
- the timing of the expected cash inflows.

Collective assessment

The loans that are assessed for impairment losses on a collective basis include the following:

- corporate loans that are individually insignificant;
- homogeneous groups of loans of similar credit risk, including all personal loans; and
- all loans for which no impairment can be identified individually, either due to the absence of any loss events or due to an inability to measure reliably the impact of potential loss events on future cash flows.

For the purpose of collective assessment, assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iv) Maximum exposure to credit risk

Financial instruments and commitment and guarantee subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	As at 31 December	
	2018	2017
Financial tools		
Cash and deposits with central bank	**99,057,627**	101,324,397
Deposits with banks and other financial institutions	**10,866,562**	14,443,630
Placements with banks and other financial institutions	**15,299,113**	6,606,541
Reverse repurchase agreements	**29,338,950**	76,393,395
Interest receivables	**N/A**	5,723,067
Loans and advances to customers		
– at amortized cost	**361,527,532**	285,701,697
– at fair value through other comprehensive income	**3,440,439**	N/A
Available-for-sale financial assets	**N/A**	68,876,564
Held-to-maturity investments	**N/A**	59,902,988
Investment classified as receivables	**N/A**	90,919,325
Financial assets at amortized cost	**80,358,225**	N/A
Financial assets at fair value through other comprehensive income	**57,697,751**	N/A
Other financial assets	**707,048**	892,288
Total	**658,293,247**	710,783,892
Credit commitments	**140,329,658**	122,168,029

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iv) Maximum exposure to credit risk (continued)

Financial instruments and commitment and guarantee subject to impairment (continued)

As at 31 December 2018, the analysis of the maximum credit risk exposure to loans and advances by credit rating/overdue days is as follows:

	31 December 2018			
Corporate loans	**Stage I**	**Stage II**	**Stage III**	**Total**
Credit rating				
A- to AAA	111,979,860	1,019,153	–	112,999,013
B to BBB	89,235,698	489,988	–	89,725,686
C to CCC	–	35,621,671	510,197	36,131,868
D/Default	–	–	3,990,611	3,990,611
Unrated	22,158,858	3,910,442	718,348	26,787,648
Total	223,374,416	41,041,254	5,219,156	269,634,826
Expected credit losses allowance	(1,161,864)	(4,935,028)	(2,540,606)	(8,637,498)
Net carrying amount	222,212,552	36,106,226	2,678,550	260,997,328

	31 December 2018			
Personal loans	**Stage I**	**Stage II**	**Stage III**	**Total**
Overdue days				
Not overdue	105,827,898	258,259	332,566	106,418,723
0 to 30 days	92,454	234,331	5,304	332,089
30 to 60 days	–	271,056	3,103	274,159
60 to 90 days	–	198,495	48,593	247,088
More than 90 days/Default	–	–	1,082,025	1,082,025
Total	105,920,352	962,141	1,471,591	108,354,084
Expected credit losses allowance	(2,659,922)	(435,016)	(1,288,503)	(4,383,441)
Net carrying amount	103,260,430	527,125	183,088	103,970,643

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(iv) Maximum exposure to credit risk (continued)

Financial instruments and commitment and guarantee subject to impairment (continued)

As at 31 December 2018, the analysis of the maximum credit risk exposure to financial investments by credit rating is as follows:

Financial assets at amortized cost	31 December 2018 Stage I	Stage II	Stage III	Total
Credit rating				
A- to AAA	9,161,900	–	–	9,161,900
B to BBB	–	–	–	–
C to CCC	–	–	–	–
D/Default	–	–	–	–
Unrated	70,947,286	550,526	–	71,497,812
Total	80,109,186	550,526	–	80,659,712
Expected credit losses allowance	(228,647)	(72,840)	–	(301,487)
Net carrying amount	79,880,539	477,686	–	80,358,225

Financial assets at fair value through other comprehensive income	31 December 2018 Stage I	Stage II	Stage III	Total
Credit rating				
A- to AAA	13,702,403	181,879	–	13,884,282
B to BBB	–	–	–	–
C to CCC	–	–	–	–
D/Default	–	–	324,432	324,432
Unrated	41,764,768	1,225,065	499,204	43,489,037
Total	55,467,171	1,406,944	823,636	57,697,751

Financial instruments not subject to impairment

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL):

	As at 31 December 2018	2017
Financial assets at fair value through profit or loss	89,797,155	15,270,181

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(v) Loans and advances to customers

	31 December 2018		31 December 2017	
By industry	**Amount**	**(%)**	Amount	(%)
Corporate loans				
Real estate	**55,549,315**	**14.69%**	45,968,454	15.62%
Lease and commercial service	**48,898,164**	**12.93%**	30,017,750	10.21%
Wholesale and retail	**45,002,653**	**11.90%**	29,360,166	9.99%
Manufacturing	**29,853,350**	**7.90%**	21,605,621	7.35%
Construction	**17,850,626**	**4.72%**	10,518,924	3.58%
Transportation, warehouse and postal services	**13,234,858**	**3.50%**	9,553,991	3.25%
Hotel and catering	**10,453,293**	**2.77%**	7,593,569	2.58%
Agriculture, forestry, farming and fishery	**8,763,214**	**2.32%**	5,212,505	1.77%
Financial services	**6,774,640**	**1.79%**	5,321,100	1.81%
Education	**5,389,116**	**1.43%**	4,697,822	1.60%
Water, environment and public facilities management	**5,090,059**	**1.35%**	7,713,316	2.62%
Information transmission, software and IT services	**4,905,431**	**1.30%**	3,074,292	1.05%
Resident services, repairing and other services	**4,303,530**	**1.14%**	2,222,934	0.76%
Healthcare and social welfare	**2,902,965**	**0.77%**	2,970,171	1.01%
Culture, sports and entertainment	**2,769,936**	**0.73%**	2,490,316	0.85%
Energy and utilities	**2,690,972**	**0.71%**	2,855,931	0.97%
Others	**1,606,953**	**0.43%**	1,364,616	0.46%
Subtotal	**266,039,075**	**70.38%**	192,541,478	65.48%
Discounted bills	**3,595,751**	**0.95%**	5,219,393	1.78%
Personal loans	**108,354,084**	**28.67%**	96,252,402	32.74%
Total	**377,988,910**	**100.00%**	294,013,273	100.00%

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(v) Loans and advances to customers (continued)

By geography	As at 31 December 2018	2017
Guangzhou	325,735,533	257,223,570
Pearl River Delta (except Guangzhou)	20,418,951	11,876,307
Central China	11,576,959	10,273,551
Guangdong Province (except Pearl River Delta)	11,045,722	5,619,209
Yangtze River Delta	2,836,743	3,162,267
Western China	1,971,869	1,997,355
Bohai Rim	1,102,843	898,895
North-east China	504,697	641,481
Others	2,795,593	2,320,638
Total	377,988,910	294,013,273

By collateral type	As at 31 December 2018	2017
Unsecured loans	28,833,498	26,271,720
Guaranteed loans	89,552,568	65,060,991
Collateralised loans	226,734,975	179,578,264
Pledged loans	32,867,869	23,102,298
Total	377,988,910	294,013,273

	Overdue loans and advances to customers				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
31 December 2018					
Unsecured loans	678,684	628,409	104,995	28,994	1,441,082
Guaranteed loans	581,242	833,913	362,886	212,403	1,990,444
Collateralised loans	2,593,905	978,411	461,551	822,196	4,856,063
Pledged loans	133,602	23,484	5,336	1,103	163,525
Total	3,987,433	2,464,217	934,768	1,064,696	8,451,114

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(v) Loans and advances to customers (continued)

	Overdue loans and advances to customers				
	Past due up to 90 days (including 90 days)	Past due 90 days to 1 year (including 1 year)	Past due 1 year to 3 years (including 3 years)	Past due over 3 years	Total
31 December 2017					
Unsecured loans	106,271	127,757	199,796	99,590	533,414
Guaranteed loans	314,943	258,438	733,388	797,479	2,104,248
Collateralised loans	1,354,321	394,888	1,481,682	59,691	3,290,582
Pledged loans	25,015	2,147	9,454	130	36,746
Total	1,800,550	783,230	2,424,320	956,890	5,964,990

(vi) Credit quality

As at 31 December 2018, the credit quality analysis of the Group's major financial assets (without deducting the original value before the impairment provision) was as follows:

	31 December 2018			
	Stage I	**Stage II**	**Stage III**	**Total**
Cash and deposits with central bank	**99,066,310**	**–**	**–**	**99,066,310**
Deposits with banks and other financial institutions	**10,867,536**	**–**	**–**	**10,867,536**
Placements with banks and other financial institutions	**15,300,451**	**–**	**–**	**15,300,451**
Reverse repurchase agreements	**29,341,522**	**–**	**–**	**29,341,522**
Loans and advances to customers	**329,294,768**	**42,003,395**	**6,690,747**	**377,988,910**
Financial assets at amortized cost	**80,109,186**	**550,526**	**–**	**80,659,712**
Financial assets at fair value through other comprehensive income	**55,467,126**	**1,406,972**	**823,653**	**57,697,751**
Other financial assets	**507,134**	**101,353**	**365,597**	**974,084**
Total	**619,954,033**	**44,062,246**	**7,879,997**	**671,896,276**

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(vi) Credit quality (continued)

As at 31 December 2017, the credit quality analysis of the Group's major financial assets (without deducting the original value before the impairment provision) was as follows:

	31 December 2017			
	Not impaired			
	Not overdue	Overdue	Impaired	Total
Cash and deposits with central bank	101,324,397	–	–	101,324,397
Deposits with banks and other financial institutions	14,443,630	–	–	14,443,630
Placements with banks and other financial institutions	6,606,541	–	–	6,606,541
Financial assets at fair value through profit or loss	15,065,854	–	204,327	15,270,181
Reverse repurchase agreements	76,393,395	–	–	76,393,395
Interest receivable	5,657,968	17,178	92,548	5,767,694
Loans and advances to customers	287,845,596	1,717,040	4,450,637	294,013,273
Available-for-sale financial assets	67,356,723	1,519,841	–	68,876,564
Held-to-maturity investments	59,913,089	–	–	59,913,089
Investment classified as receivables	89,154,793	–	2,190,730	91,345,523
Other financial assets	893,518	1,770	446,466	1,341,754
Total	724,655,504	3,255,829	7,384,708	735,296,041

Loans and advances for stage I and II

	31 December 2018	
	Stage I	Stage II
Not overdue	328,983,719	38,650,077
Within 1 month	311,049	1,149,636
1 to 2 months	–	716,829
2 to 3 months	–	1,486,853
Total	329,294,768	42,003,395

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(vi) Credit quality (continued)

Loans and advances that are neither overdue nor devalued

On 31 December 2017, loans and advances that were neither overdue nor devalued included loans classified by the Group as pass and special-mention according to the five-categories classification.

	31 December 2017
Pass	281,768,717
Special-mention	6,076,879
Total	287,845,596

Management said the loans were only exposed to normal business risks on 31 December 2017, and there was no identifiable objective evidence of impairment.

Loans and advances that are overdue but still in stage I and II/unimpaired

As at the balance sheet date, the ageing of loans and advances overdue but still in stage I and II/unimpaired is as follows:

	As at 31 December	
	2018	2017
Within 1 month	**1,460,685**	1,158,422
1 to 2 months	**716,829**	249,860
2 to 3 months	**1,486,853**	307,107
3 months and above	**–**	1,651
Total	**3,664,367**	1,717,040

As at 31 December 2018 and 2017, the fair value of the collateral held by the Group for overdue but still in Stage I and II/unimpaired loans was RMB6,737,217 thousands and RMB3,721,747 thousands respectively, including land, property, machinery and other assets.

Stage III/impairment of loans and advances

As at 31 December 2018 and December 2017, the fair value of the collateral held by the Group for the Stage III/impairment loan was RMB5,483,971 thousands and RMB3,499,265 thousands respectively, including land, real estate, machinery and equipment and other assets.

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(vi) Credit quality (continued)

Restructuring loans and advances

As at 31 December 2018 and 2017, the book value of the Group's restructuring loans and advances was RMB4,675,670 thousands and RMB3,995,280 thousands respectively.

As at 31 December 2018, the book value of the Group's restructuring loans and advances in stage I was RMB1,067,943 thousands.

Credit rating assessed by a rating agency at the balance sheet date

The RMB bonds of the Group are mainly rated by Zhongxin International Credit rating Co., Ltd., Dagong International Credit Assessment Co., Ltd., United Credit Assessment Co., Ltd., Shanghai East Credit Assessment Co., Ltd. Shanghai New Century Credit Assessment Service Co., Ltd., Pengyuan Credit Assessment Co., Ltd., and Dongfang Jincheng International Credit Assessment Co., Ltd. Foreign currency bonds refer mainly to Standard & Poor's (S & P) ratings.

	Financial assets at fair value through profit or loss	Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Total
31 December 2018				
Medium-term and long-term bonds:				
AAA	667,769	8,022,281	9,467,112	18,157,162
AA- to AA+	2,129,707	956,505	4,417,170	7,503,382
BB- to BB+	28,048	–	–	28,048
No rating (1):	10,500,187	50,933,779	32,464,649	93,898,615
Other no rating investments	76,471,444	20,747,147	11,348,820	108,567,411
Total	89,797,155	80,659,712	57,697,751	228,154,618

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(vi) Credit quality (continued)

Credit rating assessed by a rating agency at the balance sheet date (continued)

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Total
31 December 2017				
Medium-term and long-term bonds:				
AAA	709,082	4,670,872	8,299,216	13,679,170
AA- to AA+	269,979	4,764,673	1,066,866	6,101,518
No rating (1):	6,709,004	27,669,824	50,547,007	84,925,835
Other no rating investments	7,582,116	31,771,195	–	39,353,311
Total	15,270,181	68,876,564	59,913,089	144,059,834

(1) No rating debt securities mainly consist of investment and trading securities issued by the MOF, central bank, policy banks and other financial institutions which are creditworthy issuers in the market, but are not rated by independent rating agencies.

(b) Liquidity risk

Liquidity risk is the risk that capital will not be sufficient or funds will not be raised at reasonable cost in a timely manner for the repayment of debts due. This may arise from amount or maturity mismatches of assets and liabilities.

The Group manages its liquidity risk through the Asset and Liability Management Department and aims to:

- optimise the structure of assets and liabilities;
- maintain the stability of the deposit base;
- project cash flows and evaluate the level of current assets; and
- in terms of liquidity of the branches, maintain an efficient internal fund transfer mechanism.

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

The Group's expected remaining maturity of their financial instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

(i) Analysis of the remaining maturity of the assets and liabilities is set out below:

31 December 2018	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and deposits with central bank	–	41,792,478	–	–	–	–	–	59,797,236	101,589,714
Deposits with banks and other financial institutions[1]	–	5,290,343	31,492,970	5,764,214	12,957,098	–	–	–	55,504,625
Financial assets at fair value through profit or loss	1,546,185	29,295,722	2,362,107	3,149,818	12,917,501	36,806,718	3,521,960	197,144	89,797,155
Financial assets at amortized cost	–	–	2,417,654	3,506,058	16,350,551	44,162,158	13,921,804	–	80,358,225
Financial assets at fair value through other comprehensive income	318,983	–	2,110,127	5,648,678	13,141,593	23,143,484	12,365,858	–	56,728,723
Loans and advances to customers	4,502,485	–	21,250,972	18,931,317	93,036,007	145,754,140	81,493,050	–	364,967,971
Other financial assets	–	–	–	419,794	138,846	148,408	–	–	707,048
Total financial assets	6,367,653	76,378,543	59,633,830	37,419,879	148,541,596	250,014,908	111,302,672	59,994,380	749,653,461
Financial liabilities:									
Due to the central bank	–	–	–	76,320	2,603,000	–	–	23,584	2,702,904
Deposits from banks and other financial institutions[2]	–	5,319,969	20,423,962	23,973,745	26,869,648	–	–	–	76,587,324
Customer deposits[3]	–	278,972,393	27,130,686	35,912,335	104,534,499	86,092,674	1,035,325	8,657,250	542,335,162
Debt securities issued	–	–	703,585	20,395,806	30,582,784	–	14,193,260	–	65,875,435
Other financial liabilities	–	2,438,119	–	1,841,087	6,719,902	1,439,252	–	–	12,438,360
Total financial liabilities	–	286,730,481	48,258,233	82,199,293	171,309,833	87,531,926	15,228,585	8,680,834	699,939,185
Net liquidity gap	6,367,653	(210,351,938)	11,375,597	(44,779,414)	(22,768,237)	162,482,982	96,074,087	51,313,546	49,714,276

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(i) Analysis of the remaining maturity of the assets and liabilities is set out below: (continued)

31 December 2017	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and deposits with central bank	–	32,318,924	–	–	–	–	–	71,448,516	103,767,440
Deposits with banks and other financial institutions (1)	–	6,078,170	68,471,107	6,440,732	16,343,903	–	–	109,654	97,443,566
Financial assets at fair value through profit or loss	204,327	7,582,116	1,311,741	10,004	1,445,204	2,819,490	1,897,299	–	15,270,181
Loans and advances to customers	4,040,492	–	24,369,349	13,536,143	86,410,868	103,802,855	53,541,990	–	285,701,697
Financial investments	1,590,453	1,519,841	11,114,383	15,579,912	54,581,350	117,179,605	18,082,179	51,154	219,698,877
Other financial assets	149,952	826,388	1,292,219	1,458,806	2,564,887	178,535	1,073	143,495	6,615,355
Total financial assets	5,985,224	48,325,439	106,558,799	37,025,597	161,346,212	223,980,485	73,522,541	71,752,819	728,497,116
Financial liabilities:									
Due to the central banks	–	–	–	172,000	958,600	–	–	–	1,130,600
Deposits from banks and other financial institutions (2)	–	6,421,520	30,521,325	3,120,246	29,308,977	1,500,000	–	–	70,872,068
Customer deposits (3)	–	230,990,326	26,088,636	46,973,680	97,768,495	86,703,440	147,279	–	488,671,856
Debt securities issued	–	–	1,477,613	22,011,023	73,798,495	4,096,646	–	–	101,383,777
Other financial liabilities	–	2,845,128	1,903,641	1,422,440	8,643,067	6,928,275	123,543	7,354	21,873,448
Total financial liabilities	–	240,256,974	59,991,215	73,699,389	210,477,634	99,228,361	270,822	7,354	683,931,749
Net liquidity gap	5,985,224	(191,931,535)	46,567,584	(36,673,792)	(49,131,422)	124,752,124	73,251,719	71,745,465	44,565,367

(1) Includes reverse repurchase agreements.

(2) Includes repurchase agreements.

(3) Demand deposits from customers are classified as repayable on demand for disclosure purposes. In practice, there is a stable portion which has a longer maturity profile.

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(ii) Maturity analysis of contractual undiscounted cash flows

The tables below summarise the maturity profile of the Group's financial instruments based on the contractual undiscounted cash flows. The balances of some items in the tables below are different from the balances on the statement of financial position as the tables incorporate all cash flows relating to both principal and interest. The Group's expected cash flows on these instruments may vary significantly from the following analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance although they have been classified as repayable on demand in the following tables.

31 December 2018	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and deposits with central bank	–	41,821,081	–	–	–	–	–	59,837,599	101,658,680
Deposits and placements with banks and other financial institutions (1)	–	5,258,891	31,548,559	5,902,687	13,309,384	–	–	–	56,019,521
Financial assets at fair value through profit or loss	1,562,069	28,769,701	2,699,290	6,041,610	16,046,483	36,440,961	3,458,722	193,603	95,212,439
Financial assets at amortized cost	–	–	3,082,497	6,381,394	22,518,497	43,282,565	13,644,328	–	88,909,281
Financial assets at fair value through other comprehensive income	318,983	–	2,296,958	5,905,486	15,110,056	27,984,937	14,203,309	–	65,819,729
Loans and advances to customers	4,611,826	–	24,131,365	23,127,064	115,097,257	183,538,315	85,882,431	–	436,388,258
Other financial assets	–	–	–	419,794	138,846	148,408	–	–	707,048
Total financial assets	6,492,878	75,849,673	63,758,669	47,778,035	182,220,523	291,395,186	117,188,790	60,031,202	844,714,956
Financial liabilities:									
Due to the central bank	–	–	–	76,372	2,608,270	–	–	23,584	2,708,226
Deposits from banks and other financial institutions (2)	–	5,268,732	20,413,752	24,062,876	27,635,272	–	–	–	77,380,632
Customer deposits (3)	–	278,972,393	27,160,799	36,011,627	105,768,636	91,279,147	1,218,505	8,657,250	549,068,357
Debt securities issued	–	–	700,000	20,900,000	35,416,967	10,490,000	–	–	67,506,967
Other financial liabilities	–	686,589	544,545	1,316,446	8,231,005	1,583,892	18	396,260	12,758,755
Total financial liabilities	–	284,927,714	48,819,096	82,367,321	179,660,150	103,353,039	1,218,523	9,077,094	709,422,937
Net liquidity gap	6,492,878	(209,078,041)	14,939,573	(34,589,286)	2,560,373	188,042,147	115,970,267	50,954,108	135,292,019

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(ii) Maturity analysis of contractual undiscounted cash flows (continued)

31 December 2017	Overdue	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
Financial assets:									
Cash and deposits with central bank	–	32,355,286	–	–	–	–	–	71,448,516	103,803,802
Deposits and placements with banks and other financial institutions (1)	–	6,078,975	68,224,506	6,939,028	16,855,227	–	–	109,654	98,207,390
Financial assets at fair value through profit or loss	231,927	7,582,116	1,350,405	23,014	2,307,801	2,947,122	1,965,695	–	16,408,080
Loans and advances to customers	4,063,170	–	14,763,873	15,816,536	95,213,768	126,529,206	72,164,343	–	328,550,896
Financial investments	1,641,072	1,613,440	11,657,496	16,390,485	57,648,823	134,237,819	19,264,618	51,154	242,504,907
Other financial assets	–	695,617	7,612	3,015	19,667	21,808	1,074	143,495	892,288
Total financial assets	5,936,169	48,325,434	96,003,892	39,172,078	172,045,286	263,735,955	93,395,730	71,752,819	790,367,363
Financial liabilities:									
Due to the central bank	–	–	–	179,597	967,692	–	–	–	1,147,289
Deposits from banks and other financial institutions (2)	–	6,423,906	30,637,377	3,176,524	30,749,654	2,360,985	–	–	73,348,446
Customer deposits (3)	–	231,408,416	26,725,799	48,276,312	101,189,363	92,809,588	148,685	–	500,558,163
Debt securities issued	–	–	1,440,968	21,720,714	74,657,800	4,869,980	–	–	102,689,462
Other financial liabilities	–	2,626,571	1,618,750	748,751	7,062,113	2,259,103	92,456	7,354	14,415,098
Total financial liabilities	–	240,458,893	60,422,894	74,101,898	214,626,622	102,299,656	241,141	7,354	692,158,458
Net liquidity gap	5,936,169	(192,133,459)	35,580,998	(34,929,820)	(42,581,336)	161,436,299	93,154,589	71,745,465	98,208,905

(1) Includes reverse repurchase agreements.

(2) Includes repurchase agreements.

(3) Demand deposits from customers are classified as repayable on demand for disclosure purposes. In practice, there is a stable portion which has a longer maturity profile.

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

(iii) Analysis of credit commitments by contractual expiry date

Management expects that not all of the commitments will be drawn before the expiry of the commitments.

	Repayable on demand	Less than one month	One to three months	Three months to one year	One to five years	More than five years	Undated	Total
31 December 2018								
Credit commitments	**108,728,700**	**1,903,875**	**2,642,204**	**11,112,610**	**15,942,269**	**–**	**–**	**140,329,658**
31 December 2017								
Credit commitments	99,526,486	1,310,381	2,119,266	7,889,442	11,322,454	–	–	122,168,029

(c) Market risk

Market risk is the risk of loss, in respect of the Group's on and off-balance sheet activities, arising from adverse movements in market rates including interest rates, foreign exchange rates, commodity prices and stock prices.

Market risk arises from both the Group's trading and non-trading businesses. The Group's market risk contains currency risk, interest rate risk and other price risk.

The Group is primarily exposed to structural interest rate risk arising from commercial banking and position risk arising from treasury transactions.

The Group's currency risk mainly arises from exchange rate fluctuations on its foreign exchange exposures. Foreign exchange exposures include the mismatch of foreign exchange assets and liabilities.

Sensitivity analysis, interest rate repricing gap analysis and foreign exchange risk concentration analysis are the major market risk management tools used by the Group.

The Bank uses different management methods to control market risk which comprises trading book and banking book risks respectively.

The Group considers the market risk arising from commodity or stock price fluctuations in respect of its investment portfolios to be immaterial.

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) Currency risk

The Group conducts its businesses mainly in RMB, with certain transactions denominated in USD, HKD and other currencies.

Transactions in foreign currencies mainly arise from the Group's treasury exposures and foreign exchange business. The tables below indicate a sensitivity analysis of exchange rate changes of the currencies to which the Group had significant exposure on its monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement in the currency rates against RMB, with all other variables held constant, on profit before tax and equity.

A negative amount in the table reflects a potential net reduction in profit before tax or equity, while a positive amount reflects a potential net increase. This effect, however, is based on the assumption that the Group's foreign exchange exposures as at the year end are kept unchanged and, therefore, the actions that would be taken by the Group to mitigate the adverse impact of this foreign exchange risk are not incorporated.

	Effect on net profit		
Currency	Exchange rate fluctuation %	**2018**	2017
USD	-1%	**(36,364)**	(30,449)
USD	1%	**36,364**	30,449
HKD	-1%	**(13,459)**	(12,079)
HKD	1%	**13,459**	12,079

While the table above indicates the effect on profit before tax of 1% change of USD and HKD, there will be an opposite effect with the same amount if the currencies appreciate by the same percentage.

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) Currency risk (continued)

The table below summarizes the Group's exposure to currency risk. Included in the table are the Group's assets and liabilities at carrying amounts in RMB, categorized by original currency.

31 December 2018	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Assets:					
Cash and deposits with central bank	101,287,330	205,481	78,778	18,125	101,589,714
Deposits and placements with banks and other financial institutions	48,186,304	6,020,134	1,054,753	243,434	55,504,625
Loans and advances to customers	363,747,753	1,215,768	–	4,450	364,967,971
Financial assets at fair value through profit or loss	88,891,983	905,172	–	–	89,797,155
Financial assets at amortized cost	79,092,116	–	1,266,109	–	80,358,225
Financial assets at fair value through other comprehensive income	57,697,751	–	–	–	57,697,751
Other financial asset	704,629	1,792	515	112	707,048
Total financial asset	739,607,866	8,348,347	2,400,155	266,121	750,622,489
Liabilities:					
Due to the central bank	2,702,904	–	–	–	2,702,904
Deposits and placements from banks and other financial institutions	75,507,248	1,080,076	–	–	76,587,324
Customer deposits	539,082,622	2,419,760	605,679	227,101	542,335,162
Other liabilities	–	–	–	–	–
Debt securities issued	65,875,435	–	–	–	65,875,435
Other financial liabilities	12,438,360	–	–	–	12,438,360
Total financial liabilities	695,606,569	3,499,836	605,679	227,101	699,939,185
Net assets and liabilities position	44,001,297	4,848,511	1,794,476	39,020	50,683,304
Credit commitment	139,490,297	836,687	2,674	–	140,329,658

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) Currency risk (continued)

31 December 2017	RMB	USD Into RMB	HKD Into RMB	Others Into RMB	Total Into RMB
Assets:					
Cash and deposits with central bank	103,540,450	172,995	44,720	9,275	103,767,440
Deposits and placements with banks and other financial institutions	90,551,364	6,166,473	484,229	241,500	97,443,566
Financial assets at fair value through profit or loss	15,270,181	–	–	–	15,270,181
interest receivable	5,666,272	30,158	21,555	5,082	5,723,067
Loans and advances to customers	283,736,515	1,965,182	–	–	285,701,697
Available-for-sale financial assets	68,876,564	–	–	–	68,876,564
Held-to-maturity investments	58,695,098	–	1,207,890	–	59,902,988
Investment classified as receivables	90,919,325	–	–	–	90,919,325
Other financial asset	892,910	(622)	–	–	892,288
Total financial asset	718,148,679	8,334,186	1,758,394	255,857	728,497,116
Liabilities:					
Due to the central bank	1,130,600	–	–	–	1,130,600
Deposits and placements from banks and other financial institutions	69,065,191	1,806,877	–	–	70,872,068
Customer deposits	485,858,349	2,446,889	141,121	225,497	488,671,856
Interest payable	7,918,914	20,257	330	4,758	7,944,259
Debt securities issued	101,383,777	–	–	–	101,383,777
Other liabilities	13,922,461	317	6,411	–	13,929,189
Debt securities issued	679,279,292	4,274,340	147,862	230,255	683,931,749
Net assets and liabilities position	38,869,387	4,059,846	1,610,532	25,602	44,565,367
Credit commitment	120,147,270	1,002,337	1,016,681	1,741	122,168,029

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Interest rate risk

The Group's interest rate risk mainly arises from the mismatches between the repricing dates of interest generating assets and interest-bearing liabilities. The Group's interest-generating assets and interest-bearing liabilities are mainly denominated in RMB.

The Group manages its interest rate risk by:

- regularly monitoring the macroeconomic factors that may have impact on the PBOC benchmark interest rates;
- optimising the differences in timing between contractual repricing (maturities) of interest-generating assets and interest-bearing liabilities; and
- managing the deviation of the pricing of interest-generating assets and interest-bearing liabilities from the PBOC benchmark interest rates.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's net profit and equity.

	Effect on net profit 31 December		Effect on equity 31 December	
	2018	2017	**2018**	2017
Change in basis points				
+100bps	**(934,058)**	(424,262)	**(854,216)**	(563,444)
–100bps	**934,058**	424,262	**829,533**	589,349

The sensitivity of the net profit is the effect of a reasonable possible change in interest rates on the net profit for one year, in respect of the financial assets and liabilities held at the end of the reporting period. The effect on other comprehensive income is calculated by revaluing the year end portfolio of fixed-rate available-for-sale financial assets, based on a reasonable possible change in interest rates.

The above sensitivity analyses are based on the following assumptions: (i) all assets and liabilities that are repriced/due within three months (inclusive), and between three months and one year (inclusive) are assumed to be repriced in the mid of the respective bands; (ii) there are parallel shifts in the yield curve; and (iii) there are no other changes in the portfolios of assets and liabilities. The Group considers that the assumptions do not reflect their capital utilisation and interest rate risk management policies. Therefore, the above impact may differ from the actual situation.

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Moreover, the above analysis is for illustration only and represents the effect of pro forma movements in net profit and other comprehensive income based on the projected yield curve scenarios and the Group's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by management to mitigate the impact of interest rate risk.

	31 December 2018						
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Repayable on demand/ Non-interest bearing	Total
Assets:							
Cash and deposits with central bank	99,024,525	–	–	–	–	2,565,189	101,589,714
Deposits and placements with banks and other financial institutions (1)	37,154,199	12,862,724	–	–	–	5,487,702	55,504,625
Loans and advances to customers	83,297,618	234,500,871	40,325,944	2,341,463	4,502,075	–	364,967,971
Financial assets at fair value through profit or loss	3,917,128	6,070,070	27,761,421	3,212,788	1,518,423	47,317,325	89,797,155
Financial assets at amortized cost	5,805,646	16,024,667	43,281,959	13,644,328	–	1,601,625	80,358,225
Financial assets at fair value through other comprehensive income	7,758,804	13,141,593	23,143,484	12,365,858	319,984	968,028	57,697,751
Other financial asset	–	–	–	–	–	707,048	707,048
Total financial asset	236,957,920	282,599,925	134,512,808	31,564,437	6,340,482	58,646,917	750,622,489
Liabilities							
Due to the central bank	76,320	2,603,000	–	–	–	23,584	2,702,904
Deposits and placements from banks and other financial institutions (2)	44,063,226	26,609,900	–	–	–	5,914,198	76,587,324
Customer deposits	342,015,414	104,534,499	86,092,674	1,035,325	–	8,657,250	542,335,162
Debt securities issued	20,954,331	34,469,590	9,999,599	–	–	451,915	65,875,435
Other financial liabilities	1,841,087	6,719,902	1,439,252	–	–	2,438,119	12,438,360
Total financial liabilities	408,950,378	174,936,891	97,531,525	1,035,325	–	17,485,066	699,939,185
Total interest sensitivity gap	(171,992,458)	107,663,034	36,981,283	30,529,112	6,340,482	41,161,851	50,683,304

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	31 December 2017						
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Overdue	Repayable on demand/ Non-interest bearing	Total
Assets:							
Cash and deposits with central bank	101,176,214	–	–	–	–	2,591,226	103,767,440
Deposits and placements with banks and other financial institutions (1)	81,098,344	16,343,903	–	–	–	1,319	97,443,566
Financial assets at fair value through profit or loss	2,976,255	11,780,569	309,030	–	204,327	–	15,270,181
Interest receivable	–	–	–	–	–	5,723,067	5,723,067
Loans and advances to customers	44,122,850	222,662,971	13,163,388	1,711,996	4,040,492	–	285,701,697
Available-for-sale financial assets	27,891,580	35,220,139	4,193,850	–	1,519,841	51,154	68,876,564
Held-to-maturity investments	19,383,715	40,519,273	–	–	–	–	59,902,988
Investment classified as receivables	10,228,562	29,703,256	49,397,055	–	1,567,492	22,960	90,919,325
Other financial asset	–	–	–	–	–	892,288	892,288
Total financial asset	286,877,520	356,230,111	67,063,323	1,711,996	7,332,152	9,282,014	728,497,116
Liabilities							
Due to the central bank	172,000	958,600	–	–	–	–	1,130,600
Deposits and placements from banks and other financial institutions (2)	40,063,091	29,308,977	1,500,000	–	–	–	70,872,068
Customer deposits	304,052,642	97,768,495	86,703,439	147,280	–	–	488,671,856
Interest payable	–	–	–	–	–	7,944,259	7,944,259
Debt securities issued	23,488,635	73,798,495	4,096,647	–	–	–	101,383,777
Other financial liabilities	1,071,327	6,699,000	1,323,320	–	–	4,835,542	13,929,189
Total financial liabilities	368,847,695	208,533,567	93,623,406	147,280	–	12,779,801	683,931,749
Total interest sensitivity gap	(81,970,175)	147,696,544	(26,560,083)	1,564,716	7,332,152	(3,497,787)	44,565,367

(1) Includes reverse repurchase agreements.

(2) Includes repurchase agreements.

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital management

The Group follows the following capital management principles:

- Maintain the high quality and adequacy of capital to meet asset regulatory requirements, support business growth and advance the sustainable development scale in the Group;
- Sufficiently identify, calculate, monitor, mitigate and control various types of risks, ensuring that the capital employed is commensurate with the related risks and the level of risk management of the Group; and
- Optimise asset structure and allocate capital properly, to steadily improve the efficiency and return of capital, and advance the sustainable development of the Group.

Capital adequacy and regulatory capital are monitored by the Group's management by employing techniques based on the guidelines developed by the Basel Committee, as implemented by the CBIRC, for supervisory purposes. The required information is filed with the CBIRC on a quarterly basis. From 1 January 2013, the Group commenced to calculate the capital adequacy ratios in accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) and other relevant regulations promulgated by the CBIRC.

The Group's regulatory capital is managed by its financial department and consists of the following:

- Common equity tier 1 capital, mainly including share capital, capital reserve, surplus reserve, general reserve, retained profits, eligible portion of minority interests and others;
- Additional tier 1 capital, including additional tier 1 capital instruments issued and related premium and eligible portion of minority interests; and
- Tier 2 capital, including tier 2 capital instruments issued and related premium, excess loan loss provisions and eligible portion of minority interests.

The Group implements a weighted approach to measuring credit risk-weighted assets, which are determined according to the credit risks associated with each asset and counterparty, taking into account any eligible collateral or guarantee, with adjustments made to reflect the potential losses. Market risk-weighted assets and operational risk weighted assets are calculated using the standardised approach and basic indicator approach, respectively.

The Group takes various measures to manage risk-weighted assets including adjusting the composition of its on-balance and off-balance sheet assets.

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

48 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital management (continued)

The Group was in compliance with the capital requirement promulgated by the regulators in the reporting period. The table below summarises the Group's common equity tier 1 capital adequacy ratio, tier 1 capital adequacy ratio and capital adequacy ratio calculated in accordance with the Administrative Measures for the Capital of Commercial Banks (Trial) and other relevant regulations promulgated by the CBIRC.

	As at 31 December	
	2018	2017
Net common equity tier 1 capital	**53,540,602**	46,445,407
Net tier 1 capital	**53,680,940**	46,577,564
Net capital	**72,806,946**	52,147,109
Risk-weighted assets	**509,836,938**	434,513,306
Common equity tier 1 capital adequacy ratio	**10.50%**	10.69%
Tier 1 capital adequacy ratio	**10.53%**	10.72%
Capital adequacy ratio	**14.28%**	12.00%

49 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial instruments measured at fair value

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Quoted (Unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable, and

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

Determination of fair value and fair value hierarchy (continued)

The following tables show an analysis of financial instruments measured or disclosed at fair value by level of the fair value hierarchy:

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial assets at fair value through profit or loss				
– Debt securities	**–**	**13,117,647**	**236,251**	**13,353,898**
– Funds and other investments	**29,300,527**	**–**	**47,142,730**	**76,443,257**
Financial assets at fair value through other comprehensive income				
– Debt securities	**–**	**46,861,054**	**–**	**46,861,054**
– Funds and other investments	**–**	**–**	**10,836,697**	**10,836,697**
Total	**29,300,527**	**59,978,701**	**58,215,678**	**147,494,906**

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss				
– Debt securities	–	7,483,738	204,327	7,688,065
– Funds and other investments	7,582,116	–	–	7,582,116
Available-for-sale financial assets				
– Debt securities	–	37,055,094	50,275	37,105,369
– Funds and other investments	–	–	31,720,041	31,720,041
Total	7,582,116	44,538,832	31,974,643	84,095,591

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

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

Determination of fair value and fair value hierarchy (continued)

The following tables present the changes in Level 3 assets for the year ended 31 December 2018 and 2017:

	Financial assets at fair value through profit or loss			
	Debt securities	Funds and other investments	Financial assets at fair value through other comprehensive income	Total
At 1 January 2018	239,883	67,870,615	17,925,979	86,036,477
Purchase	–	14,083,814	–	14,083,814
Transfer to Level 3	–	–	–	–
Total gains and losses				
– Realized gains and losses	(3,632)	1,386,316	182,001	1,564,685
– Other comprehensive income	–	–	140,868	140,868
Settlement	–	(36,198,015)	(7,412,151)	(43,610,166)
At 31 December 2018	236,251	47,142,730	10,836,697	58,215,678

	Financial assets at fair value through profit or loss	Available-for-sale financial assets		
	Debt securities	Debt securities	Funds and other investments	Total
At 1 January 2017	204,327	–	30,462,148	30,666,475
Purchase	–	50,275	29,809,000	29,859,275
Transfer to Level 3	–	–	–	–
Total gains and losses				
– Realized gains and losses	–	–	136,779	136,779
– Other comprehensive income	–	–	(328,018)	(328,018)
Settlement	–	–	(28,359,868)	(28,359,868)
At 31 December 2017	204,327	50,275	31,720,041	31,974,643

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

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Financial instruments measured at fair value (continued)

Determination of fair value and fair value hierarchy (continued)

The valuation techniques used and the qualitative and quantitative information of key parameters for recurring fair value measurements categorised within Level 3 Quantitative information of Level 3 fair value measurement is as below:

	Fair value			
	31 December 2018	31 December 2017	**Valuation techniques**	**Unobservable input**
Financial assets:				
Financial assets at fair value through profit or loss				
– Debt securities	**236,251**	204,327	Discounted cash flow	Risk-adjusted discount rate, cash flow
– Funds and other investments	**47,142,730**	–	Discounted cash flow	Risk-adjusted discount rate, cash flow
Financial assets at fair value through other comprehensive income				
– Debt securities	**–**	N/A	N/A	N/A
– Funds and other investments	**10,836,697**	N/A	Discounted cash flow	Risk-adjusted discount rate, cash flow
Available-for-sale financial assets				
– Debt securities	**N/A**	50,275	Discounted cash flow	Risk-adjusted discount rate, cash flow
– Funds and other investments	**N/A**	31,720,041	Discounted cash flow	Risk-adjusted discount rate, cash flow
Total	**58,215,678**	31,974,643		

During the years ended 31 December 2018 and 2017, there were no significant change in the valuation techniques.

As at 31 December 2018 and 2017, unobservable inputs such as estimated future cash flow were used in the valuation of financial assets at fair value classified as Level 3, which were mainly asset management plans and wealth management products. The fair value of these financial assets fluctuates according to the changes in the unobservable inputs.

The sensitivity of the fair value measurement on changes in unobservable inputs for Level 3 financial instruments measured at fair value on an ongoing basis.

There are no transfers between Level 1 and Level 2 for financial assets measured at fair value during the year of 2018 and 2017.

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

49 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial instruments for which fair values are disclosed

As at 31 December 2018, financial assets and liabilities not presented at fair value on the consolidated statement of financial position mainly represent "Deposits with central banks", "Deposits with banks and other financial institutions", "Placements with banks and other financial institutions", "Reverse repurchase agreements", "Loans and advances to customers" measured at amortized cost, "Financial assets at amortized cost", "Deposits from banks and other financial institutions", "Placements from banks and other financial institutions", "Repurchase agreements", "Customer deposits" and "Debt securities issued" (31 December 2017: represent "Balances with central bank", "Deposits with banks and other financial institutions", "Placements with banks and other financial institutions", "Loans and advances to customers", "Financial investments" classified as "Held-to-maturity investments" and "Receivables", "Due to central bank", "Deposits from banks and other financial institutions", "Placements from banks and other financial institutions", "Due to customers" measured at amortised cost, and "Debt securities issued").

	As at 31 December	
	2018	2017
Carrying amount:		
Held-to-maturity investments	**N/A**	59,902,988
Investment classified as receivables	**N/A**	90,919,325
Financial assets at amortized cost	**80,358,225**	N/A
Debt securities issued	**65,875,435**	101,383,777
Fair Value:		
Held-to-maturity investments	**N/A**	59,339,547
Investment classified as receivables	**N/A**	90,919,325
Financial assets at amortized cost	**80,819,890**	N/A
Debt securities issued	**65,273,232**	101,144,718

50 EVENTS AFTER THE REPORTING PERIOD

As of 28 March 2019, the Group has no material events that requires additional disclosure in its financial statements for the year ending 31 December 2018.

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

51 STATEMENT OF FINANCIAL POSITION OF THE BANK

	31 December 2018	31 December 2017
ASSETS		
Cash and deposits with central bank	**92,991,486**	95,166,451
Deposits with banks and other financial institutions	**4,872,140**	6,028,473
Placements with banks and other financial institutions	**14,113,067**	6,158,541
Reverse repurchase agreements	**29,338,950**	75,661,063
Loans and advances to customers	**328,390,159**	250,877,347
Financial investments		
– Financial assets at fair value through profit or loss	**89,567,912**	15,270,181
– Financial assets at fair value through other comprehensive income	**57,574,172**	N/A
– Financial assets at amortized cost	**76,264,895**	N/A
– Available-for-sale financial assets	**N/A**	68,119,439
– Held-to-maturity investments	**N/A**	57,345,054
– Investment classified as receivables	**N/A**	90,733,834
Investment in subsidiaries	**2,828,704**	2,898,757
Property and equipment	**1,993,505**	1,589,900
Deferred tax assets	**3,144,796**	3,259,759
Other assets	**6,796,331**	7,217,712
Total assets	**707,876,117**	680,326,511
LIABILITIES		
Due to the central bank	**1,623,100**	-
Deposits from banks and other financial institutions	**67,588,496**	46,168,319
Placements from banks and other financial institutions	**1,238,583**	3,172,433
Repurchase agreements	**11,817,776**	23,829,470
Customer deposits	**499,195,412**	446,411,522
Income tax payable	**1,351,074**	433,084
Debt securities issued	**65,875,435**	101,383,777
Other liabilities	**7,441,457**	13,534,496
Total liabilities	**656,131,333**	634,933,101
EQUITY		
Share capital	**9,808,269**	9,808,269
Reserves	**25,257,269**	20,660,403
Retained earnings	**16,679,246**	14,924,738
Total equity	**51,744,784**	45,393,410
Total liabilities and equity	**707,876,117**	680,326,511

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

52 RESERVES OF THE BANK

The movements in reserves and retained profits of the Bank during the years ended 2018 and 2017 are set out below:

	Reserves						
	Capital reserve	Surplus reserve	General reserve	Investment revaluation reserve	Remeasurement gains on defined benefit plans	Total	Retained profits
Balance at 1 January 2017	4,842,102	3,145,805	7,707,563	(713,828)	33,817	15,015,459	12,330,912
Net profit for the year	–	–	–	–	–	–	5,370,864
Shareholders' donation	173,172	–	–	–	–	173,172	–
Issuance of shares	5,600,957	–	–	–	–	5,600,957	–
Fair value changes in available-for-sale	–	–	–	(1,309,889)	–	(1,309,889)	–
Profit from re-estimation of defined benefit plan	–	–	–	–	34,350	34,350	–
Appropriation to surplus reserve	–	537,086	–	–	–	537,086	(537,086)
Appropriation to general reserve	–	–	609,268	–	–	609,268	(609,268)
Dividends declared and paid	–	–	–	–	–	–	(1,630,684)
Balance at 31 December 2017	10,616,231	3,682,891	8,316,831	(2,023,717)	68,167	20,660,403	14,924,738
Balance at 1 January 2018	**10,616,231**	**3,682,891**	**8,316,831**	**(2,023,717)**	**68,167**	**20,660,403**	**14,924,738**
Impact on accounting policy changes	**–**	**–**	**–**	**692,685**	**–**	**692,685**	**(1,172,250)**
Restated balance at 1 January 2018	**10,616,231**	**3,682,891**	**8,316,831**	**(1,331,032)**	**68,167**	**21,353,088**	**13,752,488**
Net profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**6,211,412**
Shareholders' donation	**254,471**	**–**	**–**	**–**	**–**	**254,471**	**–**
Fair value changes in financial assets at fair value through other comprehensive income	**–**	**–**	**–**	**2,032,863**	**–**	**2,032,863**	**–**
ECL of financial assets at fair value through other comprehensive income	**–**	**–**	**–**	**376,892**	**–**	**376,892**	**–**
Profit from re-estimation of defined benefit plan	**–**	**–**	**–**	**–**	**(83,045)**	**(83,045)**	**–**
Appropriation to surplus reserve	**–**	**621,141**	**–**	**–**	**–**	**621,141**	**(621,141)**
Appropriation to general reserve	**–**	**–**	**701,859**	**–**	**–**	**701,859**	**(701,859)**
Dividends declared and paid	**–**	**–**	**–**	**–**	**–**	**–**	**(1,961,654)**
Balance at 31 December 2018	**10,870,702**	**4,304,032**	**9,018,690**	**1,078,723**	**(14,878)**	**25,257,269**	**16,679,246**

53 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2019.

(All amounts in millions of RMB unless otherwise stated)

1 LIQUIDITY RATIOS AND LEVERAGE RATIO (LIST IN PERCENTAGE)

(1) Liquidity ratios

	Average for the year ended 31 December 2018	Average for the year ended 31 December 2017
Liquidity ratios (RMB and foreign currency)	**64.96**	73.27

	As at 31 December 2018	As at 31 December 2017
Liquidity ratios (RMB and foreign currency)	**76.91**	78.01

Pursuant to the relevant regulations published by the CBIRC, the above liquidity ratios were calculated based on the financial statements prepared in accordance with Accounting Standards for Business Enterprises issued by the MOF.

(2) Leverage ratio

	As at 31 December 2018	As at 31 December 2017
Leverage ratio	**6.71**	6.18

Pursuant to the Administrative Measures on the Leverage Ratio of Commercial Banks (Amended) (商業銀行槓桿率管理辦法(修訂)) issued by the CBIRC, since 1 April 2015 (effective date of the Measures), the above leverage ratio was calculated based on the financial statements prepared in accordance with Accounting Standards for Business Enterprises issued by the MOF.

(All amounts in millions of RMB unless otherwise stated)

2 CURRENCY CONCENTRATION

	As at 31 December 2018			
	USD (RMB equivalent)	**HKD (RMB equivalent)**	**Others (RMB equivalent)**	**Subtotal**
Spot assets	**8,550.35**	**2,422.83**	**274.02**	**11,247.20**
Spot liabilities	**(8,482.22)**	**(2,422.54)**	**(273.95)**	**(11,178.71)**
Net long/(short) position	**68.13**	**0.29**	**0.07**	**68.49**

	As at 31 December 2017			
	USD (RMB equivalent)	HKD (RMB equivalent)	Others (RMB equivalent)	Subtotal
Spot assets	8,335.37	1,758.39	255.86	10,349.62
Spot liabilities	(8,270.51)	(1,758.12)	(255.79)	(10,284.42)
Net long/(short) position	64.86	0.27	0.07	65.20

Above information is calculated in accordance with regulations promulgated by the CBRC (China Bank Regulatory Commission). The Group had no structural position for the year ended 31 December 2018 and 2017.

(All amounts in millions of RMB unless otherwise stated)

3 INTERNATIONAL CLAIMS

The Group regards all claims on third parties outside Mainland China and claims denominated in foreign currencies on third parties inside Mainland China as international claims.

International claims include loans and advances to customers, deposits with central bank, deposits and placements with banks and other financial institutions, financial assets held under resale agreements and investments in debt securities.

International claims are disclosed by country or geographical region. A country or geographical region is reported where it constitutes 10% or more of the aggregate amount of international claims, after taking into account any risk transfers. Risk transfers are 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.

	As at 31 December 2018		
	Banks and other financial sector institutions	**Non-bank private sectors**	**Total**
Asia Pacific	**13,800.30**	**1,294.29**	**15,094.59**
of which attributed to Hong Kong	**8,599.30**	**–**	**8,599.30**
North and South America	**1,389.92**	**–**	**1,389.92**
Europe	**15.60**	**–**	**15.60**
Oceania	**5.10**		**5.10**
Total	**15,210.92**	**1,294.29**	**16,505.21**

	As at 31 December 2017		
	Banks and other financial sector institutions	Non-bank private sectors	Total
Asia Pacific	7,675.73	1,965.18	9,640.91
of which attributed to Hong Kong	2,801.32	–	2,801.32
North and South America	475.48	–	475.48
Europe	4.13	–	4.13
Oceania	2.96	–	2.96
Total	8,158.31	1,965.18	10,123.49

(All amounts in millions of RMB unless otherwise stated)

4 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES TO CUSTOMERS

Types	As at 31 December 2018	2017
Gross loans that were past due		
Within three months	**3,705.32**	1,369.66
More than three months and within six months	**1,504.85**	293.88
More than six months and within one year	**915.92**	381.20
More than one year	**1,804.67**	3,243.01
Total	**7,930.76**	5,287.75

Types	As at 31 December 2018	2017
As a percentage of total gross loans and advances to customers		
Within three months	**0.98**	0.47
More than three months and within six months	**0.40**	0.10
More than six months and within one year	**0.24**	0.13
More than one year	**0.48**	1.10
Total	**2.10**	1.80

Overdue loans and advances to customers by geographical region	As at 31 December 2018	2017
Guangzhou	**7,143.34**	4,788.87
Pearl River Delta (Excluding Guangzhou)	**89.50**	91.10
Guangdong Province (Excluding Pearl River Delta)	**2.54**	0.33
Yangtze River Delta	**88.80**	39.97
Northeastern China	**127.62**	48.64
Bohai Rim	**38.12**	19.18
Western China	**48.22**	29.54
Central China	**335.09**	198.29
Others	**57.53**	71.83
Total	**7,930.76**	5,287.75

"AGM"	annual general meeting of the Bank
"Articles of Association" or "Articles"	the articles of association of the Bank, which was passed by the shareholders of the Bank at the extraordinary general meeting held on 11 September 2017 and was approved by the China Banking and Insurance Regulatory Commission, Guangdong Bureau on 12 November 2018 to take effect (as amended, supplemented or otherwise revised from time to time)
"Board of Directors"	the board of directors of the Bank
"Board of Supervisors"	the board of supervisors of the Bank
"CBIRC"	China Banking and Insurance Regulatory Commission
"Company", "Bank", "our Bank" or "Guangzhou Rural Commercial Bank"	Guangzhou Rural Commercial Bank Co., Ltd.
"county bank(s)"	bank institutions that are approved by CBIRC to be incorporated in rural areas to provide services to local farmers or enterprises
"CSRC"	China Securities Regulatory Commission
"Domestic Shares"	the ordinary shares with a nominal value of RMB1.00 each issued by the Bank, which are subscribed for or credited as paid up in RMB
"Group"	Guangzhou Rural Commercial Bank Co., Ltd. and its subsidiaries
"Guangdong Bureau of CBIRC"	Guangdong Bureau of China Banking and Insurance Regulatory Commission
"H Shares"	the foreign shares which are registered in Mainland China and listed in Hong Kong
"HKD"	the lawful currency of Hong Kong Special Administrative Region
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China

DEFINITIONS

"IFRS"	International Financial Reporting Standards and International Accounting Standards ("IAS"), which include the related standards, amendments and interpretations issued by the International Accounting Standard Board ("IASB")
"Latest Practicable Date"	28 March 2019
"Listing Rules" or "Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited
"One Belt, One Road"	"Silk Road Economic Belt" and the "21st Century Maritime Silk Road"
"Reporting Period"	For the year from 1 January 2018 to 31 December 2018
"RMB"	the lawful currency of the People's Republic of China
"Sannong"	agriculture, rural areas and farmers
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"USD"	the lawful currency of the United States of America

广州农商银行
GUANGZHOU RURAL COMMERCIAL BANK