



盛京銀行
SHENGJING BANK

Shengjing Bank Co., Ltd.*

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

Stock Code: 02066

2018
Annual Report

2018

Annual Report

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

COMPANY INFORMATION

Legal Name in Chinese	盛京銀行股份有限公司
Abbreviation in Chinese	盛京銀行
Legal Name in English	Shengjing Bank Co., Ltd.
Abbreviation in English	SHENGJING BANK
Legal Representative	ZHANG Qiyang
Authorised Representatives	ZHANG Qiyang and ZHOU Zhi
Secretary to the Board of Directors	ZHOU Zhi
Joint Company Secretaries	ZHOU Zhi and KWONG Yin Ping, Yvonne
Registered and Business Address	No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC
Contact Number	86-24-22535633
Website	www.shengjingbank.com.cn
Principal Place of Business in Hong Kong	Unit 3209, 32/F, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong
Website of the Hong Kong Stock Exchange on which the H Share Annual Report is Published	www.hkexnews.hk
Place of Maintenance of the Annual Report	Office of the Board of Directors of Shengjing Bank
Stock Name	Shengjing Bank

Stock Code	02066
Share Registrar and its Business Address	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor, Hopewell Centre 183 Queen’s Road East, Wanchai, Hong Kong
Legal Advisor as to PRC Laws and its Business Address	Tian Yuan Law Firm 10/F, China Pacific Insurance Plaza 28 Fengsheng Hutong Xicheng District Beijing, the PRC
Legal Advisor as to Hong Kong Law and its Business Address	Freshfields Bruckhaus Deringer 55th Floor, One Island East, Taikoo Place Quarry Bay, Hong Kong
Auditor and its Business Address	KPMG 8th Floor, Prince’s Building 10 Chater Road Hong Kong

FINANCIAL HIGHLIGHTS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	2018	2017	Year-on-year change between 2018 and 2017	2016	2015	2014
Change						
Calculated on a per share basis						
<i>(RMB)</i>						
Basic and diluted earnings per share	0.88	1.31	(0.43)	1.18	1.07	1.25
Dividend per share	0.12	0.18	(0.06)	0.25	(0.28)	0.275
Rate of change (%)						
Major indicators of assets/liabilities						
Total assets	985,432,940	1,030,617,431	(4.4)	905,482,647	701,628,500	503,370,514
Of which: total loans and advances to customers ⁽¹¹⁾	376,597,360	279,513,418	34.7	235,416,650	195,460,365	158,644,499
Total liabilities	928,403,456	978,361,775	(5.1)	859,108,021	659,913,547	467,237,029
Of which: total deposits from customers ⁽¹¹⁾	514,166,997	473,580,808	8.6	415,246,159	402,379,086	315,943,789
Share capital	5,796,680	5,796,680	–	5,796,680	5,796,680	5,646,005
Equity attributable to equity shareholders of the Bank	56,457,868	51,681,375	9.2	45,794,429	41,268,528	35,699,553
Total equity	57,029,484	52,255,656	9.1	46,374,626	41,714,953	36,133,485
Change						
Profitability Indicators (%)						
Return on average total assets ⁽¹⁾	0.51	0.78	(0.27)	0.86	1.03	1.26
Return on average equity ⁽²⁾	9.38	15.36	(5.98)	15.62	15.99	18.83
Net interest spread ⁽³⁾	1.33	1.36	(0.03)	1.65	2.00	2.07
Net interest margin ⁽⁴⁾	1.43	1.50	(0.07)	1.75	2.14	2.32
Net fee and commission income to operating income	3.95	12.17	(8.22)	11.88	8.49	12.21
Cost-to-income ratio ⁽⁵⁾	24.13	26.22	(2.09)	19.31	19.04	19.06
Change						
Asset quality indicators (%)						
Non-performing loan ratio ⁽⁶⁾	1.71	1.49	0.22	1.74	0.42	0.44
Allowance to non-performing loans ⁽⁷⁾	160.81	186.02	(25.21)	159.17	482.38	387.42
Allowance to total loans ⁽⁸⁾	2.75	2.77	(0.02)	2.78	2.01	1.70

The development environment of the banking industry was still challenging in 2018. Outside China, the global economy was in a complicated situation with its development and expected growth being handicapped and hindered by increasing uncertainties. Within China, under the background of the implementation of de-leveraging and enhanced regulation on domestic economy, both industrial enterprises and financial institutions were under the pressure of adjustment and transformation. Facing the change in the internal and external business environments, Shengjing Bank put forward new goals and transformation requirements, asking the entire Bank to make efforts to achieve its development target, namely, to develop itself into “a comprehensive, diversified and quality joint-stock commercial bank with a leading position among banks of the same type”. Adhering this principle, the Bank calmly addressed the complicated economic situation and fierce market competition, firmly promoted the strategic transformation and innovative development, more clearly defined the concept of “light capital”, “light assets” and the layout of “One Headquarters and Two Centers”, and as a result, the Bank has developed in a robust and more efficient way.

2018 witnessed the 40th anniversary of the reform and opening-up of China and was the critical year of Shengjing Bank to implement transformation progress. Under the strategic leadership of the Board, with the joint efforts of all the staff of the Bank, the Bank achieved preliminary results of transformation and balanced development in the performance, quality and scale. Our assets and liabilities structure improved remarkably, the structure of client base optimized continuously, and our operating income increased steadily. As at the end of the reporting period, the total assets of the Bank amounted to RMB985.433 billion, recorded an operating income of RMB15.885 billion and a net profit of RMB5.126 billion, with capital adequacy level remaining stable. In light of the current circumstance, these results were not easily achieved. They were earned under the guidance and help of governments and regulatory authorities at all levels, with the support and assistance from the public, shareholders and customers, and above all were the results of the wisdom and efforts of all the staff of Shengjing Bank. I, on behalf of the Board of Shengjing Bank, would like to take this opportunity to express my sincere gratitude to all of you.

2019 is the 70th anniversary of the founding of modern China and the starting year for the new round of development strategy of Shengjing Bank. Shengjing Bank will, under the guidance of three-year development strategic planning, driven by transformation, taking spatial layout as the starting point, with risk prevention and control as the main line, rely on finance technology to further consolidate the foundation of development and improve development quality. The Bank will devote all efforts to serve the real economy, spare no efforts to develop itself into an outstanding joint-stock commercial bank with robust operation, quality asset and leading performance, so as to provide more quality services to customers and maximize values for shareholders.

HONOURS AND AWARDS

Titles of Honour	Awarding Entity
Ranked 191th among the Top 500 World Banks for 2018	The Banker (Britain) and Brand Finance
Ranked “Top 10 Small Enterprises” in “Top 100 Hong Kong Awards” in comprehensive strength selection	Top 100 Hong Kong Listed Companies Research Centre, Finet.HK
China Development Bank 2018 Outstanding and Innovative Underwriting	China Development Bank
2018 Excellent China Bond Issuer, Top 100 Settlement and Outstanding Dealer	China Central Depository & Clearing Co., Ltd.
2018 Core Dealer and Outstanding Inter-bank Deposit Issuer in the Inter-bank Local Currency Market	National Interbank Funding Center
2018 Annual Interbank Foreign Exchange Market Best Comprehensive Member Award, Maximum Progress Long Term Swap Member Award, Best Foreign Currency Borrowing Member Award	China Foreign Exchange Trade System & National Interbank Funding Center
2018 Advanced Unit for the Popularization of Financial Knowledge	CBIRC Liaoning Bureau
2018 Liaoning Province Small and Micro Enterprise 1000 Household Support Program Advanced Unit	Liaoning Banking Association
2018 Liaoning Province Financial System Labor Competition Excellent Collective	Committee of Financial Worker’s Union Liaoning Bureau
2018 Operation and maintenance innovation outstanding contribution award	Financial Computerization Magazine
Best quality of system operation throughout 2018	China UnionPay Liaoning Branch
2018 China Best Employer “Top 10 Best Employers in Shenyang”	Social Research Center of Peking University, Zhaopin.com
2018 Customer Satisfaction Enterprise in Liaoning Province	Liaoning Association of Quality
2018 Outstanding partner award	Visa Card Association

5.1 ENVIRONMENT AND PROSPECTS

At present, the economic environment, both domestically and internationally, is complicated and challenging. The world economy experiences a slowdown in growth alongside with the intensifying protectionism and unilateralism and the increasing volatility of the financial market. Under the effect of the increasing downward pressure on domestic economy, there is a need to improve the mechanism of transmission of the monetary policy to the real economy needs, making it a long way to prevent and control financial and fiscal risks. Nevertheless, the trend for long-term economic growth in China remains unchanged. The Chinese government will continue to strengthen the finance supply-side structural reform and the counter-cyclical adjustment of macroeconomic policies, so as to further keep the employment rate at a stable level and to stabilise the financial markets, foreign trade, foreign and domestic investment and expectations, and to maintain a sustainable and healthy economic development and social stability. These will create a more favourable environment for the development of the financial industry.

The business environment of the banking industry is also undergoing profound changes. As the tightened regulation tends to be normalized, efforts will continue to focus on preventing financial risks, deepening the reform of systems and mechanisms and improving the capability of the financial industry to serve the real economy. Both the acceleration of the marketisation of interest rates and the intensification of competition within the same industry or across different industries have put to test the bank's profitability, risk control level and management efficiency. The expedite development of the financial technology sector results in that new technologies are affecting the financial industry at an unprecedented rate. By focusing on promoting the national strategy and achieving the supply-side structural reforms of financial industry, the banking industry will firmly push forward the high-quality development, seek transformation and innovation, strengthen capital management, actively consolidate the deposit and loan base, enhance the level of refined management and achieve a positive interaction with the real economy.

In line with the country's general direction of promoting high-quality development and following the development target of the Bank of "developing itself into a comprehensive, diversified and high quality joint-stock commercial bank with a leading position among banks of the same type", the Bank will adopt a business strategy of pursuing stable growth continue to promote transformation and innovation, deepen the reform of systems and mechanisms, and continuously optimise the asset and liability structure to pursue a high-quality development, all of which form the core driving force for future development.

5.2 DEVELOPMENT STRATEGIES

In the next three years, the Bank will adapt to the new trend of economic development. By following the development target of the Bank, i.e. “to develop itself into a comprehensive, diversified and high quality joint-stock commercial bank with a leading position among banks of the same type”, the Bank will take the transformation and development as the engines, take the business presence coverage as protective means, take the risk prevention and control as the main line, and rely on financial technology to further consolidate the development foundation for the purpose of achieving a coordinated development and a win-win situation for both itself and the regional economy.

To achieve the above objectives, the Bank will adopt the following measures. First, the Bank will vigorously develop its light asset and light capital business and will, after considering its costs, benefits, risks and capital generally, strive to achieve a stable growth of operating profit with a higher asset turnover rate and a lesser capital consumption. Second, the Bank will develop its business presence by setting up “One Headquarters and Two Centers”, under which the operating businesses will be based in the northeast area where the Headquarters is located with business footprints covering the Beijing-Tianjin-Hebei regions and the Yangtze River Delta region, in the hope of setting up the three strategic poles of growth of Shengjing Bank that bring in complementary advantages and collaborative innovation. Third, the Bank will promote the transformational change of the Bank’s mega retail strategy and create a “wealth management system” covering payment and settlement, consumer finance, bank wealth management, and credit card business. Fourth, the Bank will build its core competitiveness for corporate business development, and create a “treasury management system” covering cash management, supply chain finance, transaction banking and investment banking operations. Fifth, both the capital management capability and the financial cost control of the Bank will be enhanced in order to achieve an optimal allocation of resources and to maximise the economies of scale despite the capital constraints and also to effectively improve the level of refined management. Sixth, by adhering to the prudent and stable risk management strategies, the Bank will continuously promote the development of a comprehensive risk management system which accord with the regulatory requirements, growth strategies and risk-related features. Seventh, the Bank will upgrade its level of information technology, closely follow the development strategy of the Bank, strive to create an efficient, safe and professional information technology service system, strengthen the supporting and guiding role of information technology in business development, and promote the improvement of business decision-making, product innovation and risk control capabilities. Eighth, the Bank will push ahead the system- and mechanism-based reform and the restructuring of its organisational structure, optimise the incentive and restraint mechanism and provide additional inputs in team building. Ninth, the Bank will also vigorously cultivate its corporate culture and proactively perform its social responsibilities with an aim to enhancing the competitiveness of the brand, and achieving a stable improvement of the corporate image of the Bank.

5.3 BUSINESS REVIEW

In 2018, in the face of the complex domestic and international economic and financial environment, Shengjing Bank closely followed the development goals and strategic positioning of “developing itself into a comprehensive, diversified and high quality joint-stock commercial bank with a leading position among banks of the same type”, under the guiding principle of “strengthening the operation and management internally and building a positive market image externally”, actively implemented the business philosophy of “developing the Bank through deposits, compliance, talents, and technology”, enhanced internal operation and management and built external market image and unswervingly promoted transformation and development in order to adjust structure and prevent risk with the quality and efficiency of the Bank’s business development continuing to be stable.

As of 31 December 2018, the total assets of the Bank were RMB985.433 billion, representing a decrease of RMB45.184 billion over the beginning of the year. The balance of deposits was RMB514.167 billion, (exclusive of interest payables) representing an increase of RMB40.586 billion or 8.6% over the beginning of the year. The balance of loans was RMB376.597 billion, representing an increase of RMB97.084 billion or 34.7% over the beginning of the year. The non-performing loan ratio was 1.71% and the net profit of the Bank was RMB5.126 billion.

In 2018, the Bank adhered to scientific co-ordination and precision development, and achieved benefits from structural adjustment, risk control, and refined management. The Bank attempted to achieve breakthroughs via asset placement and pricing management, to guide the structural adjustment through resource allocation, to promote the rise of interest spread through price adjustment, and to defuse risks and stabilize asset quality through consolidation. By focusing on “strengthening its strengths, addressing weak links, and increasing new growth segments”, the Bank promoted the redevelopment of the business management system and risk management system, fostered the source of growth for emerging business and new drivers for transformational development, strengthened its comprehensive risk management, and built a diversified growth pattern with a balanced development in terms of efficiency, quality and scale, which resulted in laying down a solid foundation for conducting a stable and healthy operation on an ongoing basis in compliance with the laws and regulations and achieving a high-quality development.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Bank continued to promote the customer base and structural adjustment of the corporate banking and retail banking segments and to enhance its market competitiveness in terms of customer attraction, service and product offerings, sales channels and marketing capabilities. By targeting at mainstream customers in the mainstream industry and quality customers in the quality industry, the Bank launched new financial services such as “Shengyin Treasury Management” to provide customers with a whole-chained and integrated investment and financing services covering transaction banking, cash management, traditional financing, investment banking and financial markets. Such services promoted highly integrated marketing efforts covering the entire industry chain, and improved the comprehensive service capabilities and market influence of the Bank. Under the orientation of transformation, i.e. “light assets and light capital”, the Bank developed strategic measures for developing retail business as a priority, and increased its support for retail business from the aspects of resource allocation, pricing management and performance appraisal to promote the implementation of “large retail” strategy. The Bank strengthened product and service innovation, built a “Shengyin Wealth Management (盛銀財富管理)” product system for retail customers, improved the “online + offline” multi-scenario, full-channel, and synergistic marketing capabilities, and continuously reinforced the professional and integrated financial service capabilities. The Bank actively developed emerging business segments and promoted the coordinated growth of financial markets, investment banking and asset management.

The Bank, under the principle of treating both the symptoms and the root causes, took measure to strengthen the establishment of an internal control compliance system. The Bank established and cultivated a culture of compliance and a prudent and sound risk management culture, to promote all employees to operate business steadily in accordance with the law and regulations. The Bank has constantly put internal control first, strengthened the establishment of systems and process, and formulated and improved systems timely according to the needs of business development and risk prevention to standardise the development of business. The Bank also strengthened the formulation of a comprehensive risk management system, gradually improved the vertical independent credit evaluation system, initially established a hierarchical internal audit management system, which was risk-oriented and independent by nature, and improved the core competitiveness of risk control.

5.4 FINANCIAL REVIEW

5.4.1 Analysis of the Income Statement

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2018	2017	Change in amount	Rate of change (%)
Interest income	42,805,495	42,277,528	527,967	1.2
Interest expense	(30,387,931)	(30,201,911)	(186,020)	0.6
Net interest income	12,417,564	12,075,617	341,947	2.8
Net fee and commission income	626,699	1,612,758	(986,059)	(61.1)
Net trading gains/(losses)	1,814,010	(1,121,332)	2,935,342	N/A
Net gains arising from investments	3,871,285	151,085	3,720,200	2,462.3
Net foreign exchange (losses)/gains	(2,883,141)	475,938	(3,359,079)	(705.8)
Other operating income	39,049	55,617	(16,568)	(29.8)
Operating income	15,885,466	13,249,683	2,635,783	19.9
Operating expenses	(3,945,215)	(3,617,442)	(327,773)	9.1
Impairment losses on assets	(6,401,249)	(1,403,284)	(4,997,965)	356.2
Profit before tax	5,539,002	8,228,957	(2,689,955)	(32.7)
Income tax expense	(412,854)	(654,818)	241,964	(37.0)
Net profit	5,126,148	7,574,139	(2,447,991)	(32.3)

In 2018, the Bank's profit before tax was RMB5.539 billion, representing a year-on-year decrease of 32.7%; and net profit was RMB5.126 billion, representing a year on year decrease of 32.3%.

5.4.1.1 Net interest income

In 2018, the Bank's net interest income was RMB12.418 billion, representing a year-on-year increase of RMB342 million or 2.8%. Net interest income constituted the largest component of the operating income of the Bank, accounting for 78.2% and 91.1% of the operating income for the years ended 31 December 2018 and 2017, respectively. The following table sets forth the interest income, interest expense and net interest income of the Bank for the years indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2018	2017	Change in amount	Rate of change (%)
Interest income	42,805,495	42,277,528	527,967	1.2
Interest expense	(30,387,931)	(30,201,911)	(186,020)	0.6
Net interest income	12,417,564	12,075,617	341,947	2.8

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the average balances of interest-earning assets and interest-bearing liabilities, the related interest income or expense, and the average yields on assets or the average costs of liabilities for the years indicated:

Items(RMB'000)	January to December 2018			January to December 2017		
	Average balances	Interest income	Yield/Cost	Average balances	Interest income	Yield/Cost
Interest-earning assets						
Loans and advances to customers	320,372,269	19,610,505	6.12%	236,549,440	15,259,589	6.45%
Financial investments	417,917,609	19,971,043	4.78%	450,881,511	23,529,703	5.22%
Deposits with central bank	77,088,241	1,139,094	1.48%	63,608,707	918,974	1.44%
Deposits with banks and other financial institutions	32,858,352	1,545,851	4.70%	39,070,902	1,983,921	5.08%
Financial assets held under resale agreements	4,305,389	114,802	2.67%	7,332,192	272,859	3.72%
Placements with banks and other financial institutions	14,663,728	424,200	2.89%	9,946,886	312,482	3.14%
Total interest-earning assets	867,205,588	42,805,495	4.94%	807,389,638	42,277,528	5.24%
Interest-bearing liabilities						
Borrowings from central bank	15,320,000	435,623	2.84%	77,356,904	2,311,544	2.99%
Deposits from customers	447,387,544	14,513,132	3.24%	429,095,818	15,898,021	3.71%
Deposits from banks and other financial institutions	98,353,024	4,018,345	4.09%	70,293,030	3,434,680	4.89%
Financial assets sold under repurchase agreements	69,034,930	2,119,566	3.07%	49,723,687	1,649,460	3.32%
Placements from banks and other financial institutions	48,516,230	1,351,205	2.79%	41,570,271	916,807	2.21%
Debt securities issued	164,075,699	7,950,060	4.85%	110,529,949	5,991,399	5.42%
Total interest-bearing liabilities	842,687,427	30,387,931	3.61%	778,569,659	30,201,911	3.88%
Net interest income		12,417,564			12,075,617	
Net interest margin			1.33%			1.36%
Net interest yield			1.43%			1.50%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the changes in the Bank's interest income and interest expense due to changes in volume and rates. Volume and rate variances have been measured based on movements in average balances, and changes in interest rates have been measured based on changes in average interest rates.

Items	January to December 2018 compared with 2017		
	Increase/(decrease) Volume ⁽¹⁾	Due to Rate ⁽²⁾	Net increase/ (decrease) ⁽³⁾
<i>(Expressed in thousands of Renminbi, unless otherwise stated)</i>			
Interest-earning assets			
Loans and advances to customers	5,406,572	(1,055,657)	4,350,915
Financial investments	(1,720,716)	(1,837,943)	(3,558,659)
Deposits with central bank	194,105	26,015	220,120
Deposits with banks and other financial institutions	(315,598)	(122,472)	(438,070)
Financial assets held under resale agreements	(112,597)	(45,460)	(158,057)
Placements with banks and other financial institutions	148,109	(36,391)	111,718
Changes in interest income	3,599,876	(3,071,909)	527,967
Interest-bearing liabilities			
Borrowings from central bank	(1,854,903)	(21,018)	(1,875,921)
Deposits from customers	678,623	(2,063,509)	(1,384,886)
Deposits from banks and other financial institutions	1,372,134	(788,469)	583,665
Financial assets sold under repurchase agreements	641,133	(171,026)	470,107
"Placements from banks and other financial institutions"	153,506	280,891	434,397
Debt securities issued	2,902,180	(943,520)	1,958,660
Changes in interest income expense	3,892,672	(3,706,652)	186,020
Changes in net interest income	(292,796)	634,743	341,947

Notes:

- (1) Represents the average balance for the period minus the average balance for the previous period, multiplied by the average yield or cost for the previous period.
- (2) Represents the average yield or cost for the period minus the average yield or cost for the previous period, multiplied by the average balance for the period.
- (3) Represents interest income or expense for the period minus interest income or expense for the previous period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

5.4.1.2 Interest Income

The following table sets forth the breakdown of the interest income of the Bank for the years indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2018		2017	
	Amount	of total (%)	Amount	of total (%)
Loans and advances to customers				
Corporate loans (including discounted bills)	18,676,927	43.6	14,759,973	34.9
Personal loans	933,578	2.2	499,616	1.2
Sub-total	19,610,505	45.8	15,259,589	36.1
Financial investments	19,971,043	46.6	23,529,703	55.7
Deposits with central bank	1,139,094	2.7	918,974	2.2
Deposits with banks and other financial institutions	1,545,851	3.6	1,983,921	4.7
Financial assets held under resale agreements	114,802	0.3	272,859	0.6
Placements with banks and other financial institutions	424,200	1.0	312,482	0.7
Total	42,805,495	100.0	42,277,528	100.0

The Bank's interest income slightly increased from RMB42.278 billion for the year of 2017 to RMB42.805 billion for the year of 2018, primarily due to an increase in the volume of loans and advances to customers.

1. *Interest Income from Loans and Advances to Customers*

Interest income from loans and advances to customers constitutes an important part of the interest income, accounting for 45.8% and 36.1% of the interest income for the years of 2018 and 2017, respectively. The following table sets forth the average balances of the loans and advances to customers, related interest income and the average yield of loans and advances to customers:

Items (RMB'000)	January to December 2018			January to December 2017		
	Average balance	Interest income	Average Yield (%)	Average balance	Interest income	Average Yield (%)
Corporate loans	300,402,281	18,676,927	6.22	225,499,837	14,759,973	6.55
Personal loans	19,969,988	933,578	4.67	6,557,802	499,616	4.52
Total	320,372,269	19,610,505	6.12	11,049,603	15,259,589	6.45

2. *Interest Income from Financial Investments*

Interest income from financial investments decreased from RMB23.530 billion for the year of 2017 to RMB19.971 billion for the year of 2018, mainly due to a decrease in the average balance of our financial investments.

3. *Interest Income from Deposits with Central Bank*

Interest income from deposits with central bank increased by 24.0% from RMB919 million for the year of 2017 to RMB1,139 million for the year of 2018.

4. *Interest Income from Deposits with Banks and Other Financial Institutions*

Interest income from deposits with banks and other financial institutions decreased by 22.1% from RMB1.984 billion for the year of 2017 to RMB1.546 billion for the year of 2018, mainly due to the decrease in the average balance and average yield of the deposits with banks and other financial institutions.

5. *Interest Income from Financial Assets Held under Resale Agreements*

Interest income from financial assets held under resale agreements decreased from RMB273 million for the year of 2017 to RMB115 million for the year of 2018, mainly because of the decrease in the average balance and average yield of financial assets held under resale agreements.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

5.4.1.3 Interest expense

The following table sets forth the principal components of the interest expense of the Bank for the years indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2018		2017	
	Amount	of total (%)	Amount	of total (%)
Borrowings from central bank	435,623	1.4	2,311,544	7.7
Deposits from customers	14,513,132	47.8	15,898,021	52.6
Deposits from banks and other financial institutions	4,018,345	13.2	3,434,680	11.4
Financial assets sold under repurchase agreements	2,119,566	7.0	1,649,460	5.5
Placements from banks and other financial institutions	1,351,205	4.4	916,807	3.0
Debt securities issued	7,950,060	26.2	5,991,399	19.8
Total	30,387,931	100.0	30,201,911	100.0

1. Interest Expense on Deposits from Customers

The following table sets forth the average balance, interest expense and average cost for each of the components of the Bank's deposits from customers:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December 2018			For the year ended 31 December 2017		
	Average balance	Interest expense	Average cost (%)	Average balance	Interest expense	Average cost (%)
	Corporate deposits					
Demand	113,041,660	1,135,410	1.00	80,004,431	767,596	0.96
Time	199,229,517	8,250,914	4.14	233,602,237	10,687,591	4.58
Sub-total	312,271,177	9,386,324	3.01	313,606,668	11,455,187	3.65
Personal deposits						
Demand	14,673,397	59,378	0.40	14,197,540	57,369	0.40
Time	120,442,970	5,067,430	4.21	101,291,610	4,385,465	4.33
Sub-total	135,116,367	5,126,808	3.79	115,489,150	4,442,834	3.85
Total deposits from customers	447,387,544	14,513,132	3.24	429,095,818	15,898,021	3.71

Interest expense on deposits from customers decreased by 8.7% from RMB15.898 billion for the year of 2017 to RMB14.513 billion for the year of 2018, primarily due to the continued improvement of the Bank's pricing management ability to reduce cost of debt.

2. *Interest Expense on Deposits from Banks and Other Financial Institution*

Interest expense on deposits from banks and other financial institutions increased by 17.0% from RMB3.435 billion for the year of 2017 to RMB4.018 billion for the year of 2018, indicating a slight change.

3. *Interest Expense on Financial Assets Sold under Repurchase Agreements*

Interest expense on financial assets sold under repurchase agreements increased by 28.5% from RMB1.649 billion for the year of 2017 to RMB2.120 billion for the year of 2018, primarily due to the increase of average balance and the average cost of financial assets sold under repurchase.

4. *Interest Expense on Placements from Banks and Other Financial Institutions*

Interest expense on placements from banks and other financial institutions increased by 47.4% from RMB917 million for the year of 2017 to RMB1,351 million for the year of 2018, mainly due to the increase of average daily balance of placements from banks and other financial institutions and a rise in average cost.

5. *Interest Expense on Debt Securities Issued*

In 2018, the interest expense on the debt securities issued by the Bank amounted to RMB7.95 billion, representing a significant increase of 32.7% as compared to that in the same period last year, which was mainly due to an increase in the volume of bonds issued by the Bank.

5.4.1.4 Net Interest Spread and Net Interest Margin

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

Net interest spread of the Bank decreased from 1.36% for the year of 2017 to 1.33% for the year of 2018, and the net interest margin of the Bank decreased from 1.50% for the year of 2017 to 1.43% for the year of 2018, primarily due to the decrease of average return rate of interest-earning assets, more specifically because of the decrease of average return rate of financial investment with higher return rate, loans and advances to customers, as well as the decrease of average return rate of deposits with banks and other financial institutions compared to the same period of last year.

5.4.1.5 Non-interest Income

1. Net Fee and Commission Income

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2018	2017	Change in amount	Rate of Change (%)
Fee and commission income				
Agency and custody services fees	586,919	1,679,156	(1,092,237)	(65.0)
Settlement and clearing services fees	194,069	155,666	38,403	24.7
Bank card services fees	48,372	42,922	5,450	12.7
Fee and commission expense	(202,661)	(264,986)	62,325	(23.5)
Net fee and commission income	626,699	1,612,758	(986,059)	(61.1)

Fee and commission expense of the Bank decreased by 23.5% from RMB265 million for the year of 2017 to RMB203 million for the year of 2018.

Fee and commission expense of the Bank decreased by 23.5% from RMB265 million for the year of 2017 to RMB203 million for the year of 2018. The Bank's net fee and commission income decreased from RMB1.613 billion for the year of 2017 to RMB627 million for the year of 2018, primarily due to the decrease of agency and custody businesses.

2. Net Trading Gains/(Losses)

For the year of 2018, the gains from the financial assets at fair value through profit or loss amounted to RMB1.814 billion, mainly affected by the foreign exchange swap derivatives with changes in the fair value.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3. Net Gains Arising from Financial Investments

In 2018, the net gains arising from investments amounted to RMB3,871 million, representing an increase of 2,462.3% compared with the same period in 2017. This was mainly due to the fact that financial assets at fair value through profit or loss as the Bank adopted IFRS 9 since 1 January 2018, resulting in the increase of net gains arising from financial investments; and the Bank sold premium bonds to increase net income when the interest rate in bond market decreased in 2018.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2018	2017	Change in amount	Rate of Change (%)
Dividends from designated as financial assets at fair value through other comprehensive income	15,730	–	15,730	N/A
Net gains on disposal of financial assets at fair value through other comprehensive income	404,028	–	404,028	N/A
Net gains from financial assets at fair value through profit or loss	2,326,114	–	3,185,354	N/A
Net gains on disposal of financial assets measured at amortised cost	1,125,413	–	266,173	N/A
Dividends from available-for-sale equity investments	–	38,601	(38,601)	(100.0)
Net gains on disposal of available-for-sale financial assets	–	123,302	(123,302)	(100.0)
Net losses on disposal of held-to-maturity investments	–	(10,818)	10,818	(100.0)
Total	3,871,285	151,085	3,720,200	2,462.3

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

5.4.1.6 Operating Expenses

In 2018, the operating expense of the Bank amounted to RMB3.945 billion, representing a year-on-year increase of RMB328 million or 9.1%.

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2018	2017	Change in amount	Rate of Change (%)
Staff costs	2,095,285	2,067,392	27,893	1.3
Taxes and surcharges	111,757	143,641	(31,884)	(22.2)
Depreciation and amortisation	403,342	371,278	32,064	8.6
Rental and property management expenses	256,521	246,688	9,833	4.0
Office expenses	274,804	296,697	(21,893)	(7.4)
Other general and administrative expenses	803,506	491,746	311,760	63.4
Total operating expenses	3,945,215	3,617,442	327,773	9.1

1. Staff Costs

The following table sets forth the principal components of the staff costs of the Bank for the years indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2018	2017	Change in amount	Rate of Change (%)
– Salaries, bonuses and allowances	1,516,815	1,541,573	(24,758)	(1.6)
– Pension and annuity	240,705	210,036	30,669	14.6
– Other social insurance	142,860	131,839	11,021	8.4
– Housing allowances	92,235	83,604	8,631	10.3
– Supplementary retirement benefits	4,743	973	3,770	387.5
– Others	97,927	99,367	(1,440)	(1.4)
Total staff costs	2,095,285	2,067,392	27,893	1.3

In 2018, total staff costs of the Bank amounted to RMB2.095 billion, representing a year-on-year increase of RMB28 million or 1.3%, primarily due to (i) an increase in the number of staff of the Bank and (ii) an enhancement of the performance remuneration assessment.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. *Taxes and Surcharges*

The taxes and surcharges decreased by 22.2% from RMB144 million in the year of 2017 to RMB112 million for the year of 2018, mainly due to a decrease in other taxes and charges.

3. *Office Expenses, Rental and Property Management Expenses*

Office expenses, rental and property management expenses mainly include office supplies, property rents, maintenance fees for electronic devices, security fees, conference fees and postal, telecom and printing fees. Office expenses, rental and property management expenses for the year of 2018 and 2017 were RMB531 million and RMB543 million, respectively.

4. *Depreciation and Amortisation*

Depreciation and amortisation increased by 8.6% from RMB371 million for the year of 2017 to RMB403 million for the year of 2018. The increase in depreciation and amortisation was primarily due to the increase in the depreciation of fixed assets resulting from expanded properties and equipment and the increase in the long-term unamortised expenses of the Bank, in particular, the renovation costs of leased properties and the expenses for opening operation outlets.

5. *Other General and Administrative Expenses*

Other general and administrative expenses increased by 63.4% from RMB492 million in 2017 to RMB804 million in 2018.

5.4.1.7 *Impairment Losses on Assets*

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

(Expressed in thousands of Renminbi, unless otherwise stated)	For the year ended 31 December			
	2018	2017	Change in amount	Rate of Change (%)
Deposits and placements with banks and other financial institutions	(15,650)	–	(15,650)	N/A
Financial assets held under resale agreements	(4,901)	–	(4,901)	N/A
Loans and advances to customers	5,121,577	1,312,612	3,808,965	290.2
Financial investments	1,040,801	134,000	906,801	676.7
Credit commitments	(210,458)	–	(210,458)	N/A
Others	469,880	(43,328)	513,208	N/A
Total	6,401,249	1,403,284	4,997,965	356.2

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

5.4.1.8 Income Tax Expense

During the year of 2018, income tax expense of the Bank amounted to RMB413 million, representing a decrease of RMB242 million or 37% compared with the previous year. The effective tax rate of the Bank was 7.45%, which is the same as last year.

5.4.2 Analysis of the Statement of Financial Position

5.4.2.1 Assets

Total assets of the Bank as at 31 December 2018 and 2017 were RMB985.433 billion and RMB1,030.617 billion, respectively. The decrease of the total assets was mainly because of the Bank's strategic adjustment and improvement in business structure in view of changes to internal and external environments. The principal components of the Bank's assets are (i) loans and advances to customers, (ii) financial investments, (iii) deposits with banks and other financial institutions, and (iv) cash and deposits with central bank, which accounted for 37.4%, 48.1%, 3.0% and 9.9%, respectively, of total assets of the Bank as at 31 December 2018.

The following table sets forth the constitution of total assets of the Bank as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	of total (%)	Amount	of total (%)
Assets				
Total loans and advances to customers	376,597,360	38.2	279,513,418	27.1
Add: Interest receivable	1,839,265	0.2	–	–
Less: Provision for impairment losses	(10,358,586)	1.0	(7,730,631)	(0.7)
Net loans and advances to customers	368,078,039	37.4	271,782,787	26.4
Financial investments ⁽¹⁾	474,765,776	48.1	566,365,837	55.0
Deposits with banks and other financial institutions	29,098,503	3.0	35,414,260	3.4
Cash and deposits with central bank	97,573,501	9.9	84,201,957	8.2
Financial assets held under resale agreements	2,146,696	0.2	20,339,752	2.0
Placements with banks and other financial Institutions	2,400,914	0.2	34,327,733	3.3
Derivative financial assets	2,171,078	0.2	429,386	0.0
Precious metal	–	–	274,310	0.0
Other assets ⁽¹⁾	9,198,433	1.0	17,481,409	1.7
Total assets	985,432,940	100.0	1,030,617,431	100.0

Notes:

- (1) Includes interest receivables, property and equipment, other receivables, deferred income tax assets and other assets.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. *Loans and Advances to Customers*

The total loans and advances to customers made by the Bank as of 31 December 2018 amounted to RMB376.597 billion with an increase of 34.7% compared with the end of the previous year. The total loans and advances to customers accounted for 38.2% of total assets with an increase of 11.1 percentage points compared with the end of the previous year.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	of total (%)	Amount	of total (%)
Corporate loans				
– Corporate loans	347,547,631	92.3	262,549,690	94.0
– Discounted bills	3,597,503	1.0	1,955,529	0.7
Personal loans				
– Residential mortgage	20,822,817	5.5	9,227,270	3.3
– Personal consumption loans	3,075,729	0.8	3,988,457	1.4
– Credit cards	799,698	0.2	674,173	0.2
– Personal business loans	732,873	0.2	1,062,927	0.4
– Others	21,109	0.0	55,372	0.0
Total loans and advances to customers	376,597,360	100.0	279,513,418	100.0

The loans and advances to customers made by the Bank consist mainly of corporate loans (including discounted bills) and personal loans. Corporate loans (including discounted bills) constitute the largest component of the Bank's loans. The Bank's corporate loans as at 31 December 2018 and 31 December 2017 amounted to RMB351.145 billion and RMB264.505 billion, respectively, and accounted for 93.3% and 94.7%, respectively, of total loans and advances to customers made by the Bank, mainly attributable to (i) the Bank's continuous increase in extending loans to enterprises in key industries, such as wholesale and retail industry, lease and commercial service industry and manufacturing industry; and (ii) continuous increases in the relevant loan balance as a result of the Bank's continuous efforts to strengthen the business cooperation with key quality corporate clients.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The personal loans made by the Bank mainly include residential mortgage, personal consumption loans, credit cards, personal business loans and other personal loans. The balance of personal loans amounted to RMB25.452 billion, representing an increase of RMB10.444 billion or 69.6% as compared to that at the end of the previous year, and accounted for 6.7% of total loans and advances to customers. Among personal loans, residential mortgage increased by RMB11.596 billion or 125.7% as compared to that at the end of the previous year, mainly driven by the demand from the personal residential mortgage loan market; personal consumption loans decreased by RMB913 million or 22.9% as compared to that at the end of the previous year.

1) Loans by collateral

As at 31 December 2018 and 31 December 2017, loans secured by mortgages, pledges or guarantees, in aggregate, represented 96.2% and 93.4% of total loans and advances to customers. If a loan is secured by more than one form of collateral, the entire amount of such loan is allocated to the category representing the primary form of collateral. The following table sets forth the distribution of loans and advances to customers by collateral type as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	of total (%)	Amount	of total (%)
Loans secured by mortgages loans	129,346,181	34.3	109,919,300	39.3
Loans secured by pledges	62,532,085	16.6	25,017,254	9.0
Guaranteed loans	170,476,030	45.3	126,048,740	45.1
Unsecured loans	14,243,064	3.8	18,528,124	6.6
Total loans and advances to customers	376,597,360	100.0	279,513,418	100.0

The structure of collaterals of the Bank's loans and advances to customers is stable, with strong capability to mitigate risks. As at 31 December 2018, the balance of loans secured by mortgages, pledges and guarantee amounted to RMB362.354 billion, representing an increase of RMB101.369 billion or 38.8% compared with that at the end of the previous year, accounting for 96.2% of total loans and advances to customers, which indicated a higher proportion than that at the end of the previous year; the balance of unsecured loans was RMB14.243 billion, representing a decrease of RMB4.285 billion as compared with that at the end of the previous year, accounting for 3.8% of total loans and advances to customers, which indicated a lower proportion than that at the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- 2) Changes in provision for impairment on loans and advances to customers (contract value)

The following table sets forth the changes in the provision for impairment on loans and advances to customers for the periods indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2018			Total
	Expected credit loss over the next 12 month	Lifetime expected credit losses-not credit-impaired loans	Lifetime expected credit loss-credit-impaired loans	
Adjusted balance as at the beginning of the year	3,347,500	1,382,476	2,929,100	7,659,076
Transfer to:				
- Expected credit losses over the next 12 months	8,328	(8,328)	-	-
- Lifetime expected credit losses - not credit-impaired loans	(7,833)	7,833	-	-
- Lifetime expected credit losses - credit-impaired loans	(140,717)	(398,536)	539,253	-
Net charge for the year	433,589	216,689	4,470,653	5,120,931
Release for the year	-	-	(2,076,660)	(2,076,660)
Unwinding of discount	-	-	(137,928)	(137,928)
Write-off for the year	-	-	(206,976)	(206,976)
Recoveries for the year	-	-	143	143
Balance as at the end of the year	3,640,867	1,200,134	5,517,585	10,358,586

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

	As at 31 December 2017			Total
	Provision for impairment on loans and advances – which are collectively assessed	Provision for impaired loans and advances – which are collectively assessed	Provision for impaired loans and advances – which are individually assessed	
Balance as at the beginning of the year	4,379,900	102,589	2,053,429	6,535,918
Net charge for the year	1,126,486	18,571	167,555	1,312,612
Unwinding of discount	-	-	(110,278)	(110,278)
Write-offs for the year	-	(8,866)	-	(8,866)
Recoveries for the year	-	27	1,218	1,245
Balance as at the end of the year	<u>5,506,386</u>	<u>112,321</u>	<u>2,111,924</u>	<u>7,730,631</u>

Provision for impairments on loans and advances to customers increased from RMB7.731 billion as of 31 December 2017 to RMB10.359 billion as of 31 December 2018, mainly because the Bank properly increased the loan provision ratio in line with changes in the macro-economic conditions and the relevant requirements of the regulatory authorities.

2. *Financial Investments*

As of 31 December 2018, the financial investments (including financial assets at fair value through other comprehensive income, financial assets measured at amortised cost and financial assets at fair value through profit or loss) of the Bank amounted to RMB474.766 billion. As of 31 December 2017, the financial investments (including loans and receivables, available-for-sale financial assets and held-to-maturity investments) of the Bank amounted to RMB566.366 billion, representing 48.1% and 55.0% of total assets of the Bank, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table shows the composition of the Bank's financial investments (excluding interest receivable) as at the dates indicated.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2018	
	Amount	Of total (%)
Financial assets at fair value through profit or loss	151,690,685	32.3
– Policy bank bonds	1,434,344	0.3
– Bonds of banks and other financial institutions	35,581,570	7.6
– Corporate bonds	1,030,961	0.2
– Investment and management products managed by securities companies	103,158,400	22.0
– Wealth management products issued by financial institutions	10,485,410	2.2
Financial assets at fair value through other comprehensive income	58,741,147	12.4
– Policy bank bonds	26,904,821	5.7
– Government bonds	17,882,657	3.8
– Bonds of banks and other financial institutions	1,018,740	0.2
– Corporate bonds	4,532,188	1.0
– Investment and management products managed by securities companies	6,330,566	1.3
– Equity investment	2,072,175	0.4
Financial assets at amortised cost	259,896,591	55.3
– Policy bank bonds	64,533,451	13.7
– Government bonds	51,379,771	10.9
– Bonds of banks and other financial institutions	5,888,675	1.3
– Corporate bonds	30,809,362	6.6
– Investment and management products managed by securities companies	21,722,671	4.6
– Investment and management products under the trust plan	87,960,574	18.7
Less: provision for impairment losses	(2,397,913)	(0.5)
Total	470,328,423	100.0

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2017	
	Amount	Of total (%)
Available-for-sale financial assets	103,729,104	18.4
– Policy bank bonds	18,086,614	3.2
– Government bonds	2,579,626	0.5
– Bonds issued by banks and other financial institutions	20,235,766	3.6
– Corporate bonds	7,661,698	1.4
– Wealth management products issued by financial institutions	4,710,000	0.8
– Investment funds	50,071,375	8.8
– Equity investment	384,025	0.1
Held-to-maturity investments	224,536,165	39.6
– Policy bank bonds	91,460,083	16.1
– Government bonds	107,016,384	18.9
– Bonds issued by banks and other financial institutions	25,166,186	4.4
– Corporate bonds	893,512	0.2
Investments classified as Receivables	238,100,568	42.0
– Investment management products managed by securities companies	137,276,867	24.2
– Investment management products under trust scheme	99,736,701	17.6
– Wealth management products issued by financial institutions	2,500,000	0.4
Less: Provision for loans and receivables	(1,413,000)	(0.2)
Total	<u>566,365,837</u>	<u>100.0</u>

The financial investments (excluding interest receivable) of the Bank decreased from RMB566.366 billion as of 31 December 2017 to RMB470.328 billion as of 31 December 2018 representing a decrease of 16.96%, mainly attributable to the business structure adjustment according to the changes to the internal and external environment while the Bank sold part of its bond assets to gain premium income when the market interest rate changed.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- 1) Movements of provision for impairment losses of financial assets at fair value through other comprehensive income during the year are as follows:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2018			Total
	Expected credit loss in next 12 months	Lifetime expected credit loss – credit impairment not occurred	Lifetime expected credit loss – credit impairment occurred	
Adjusted balance as at the beginning of the year	8,801	–	–	8,801
Net release for the year	(3,348)	–	–	(3,348)
Balance as at the end of the year	5,453	–	–	5,453

- 2) Movements of provision for impairment losses of financial assets at amortised cost during the year are as follows:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2018			Total
	Expected credit loss in next 12 months	Lifetime expected credit loss – credit impairment not incurred	Lifetime expected credit loss – credit impairment incurred	
Adjusted balance as at the beginning of the year	1,243,608	52,321	57,835	1,353,764
Transferred:				
– Expected credit loss up to next 12 months	37,169	(37,169)	–	–
– Expected credit loss up to lifetime – credit impairment incurred	–	(5,494)	5,494	–
Net charge for the year	213,855	121,954	708,340	1,044,149
Balance as at the end of the year	1,494,632	131,612	771,669	2,397,913

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- 3) Movements of provision for impairment losses of loans and receivables during last year are as follows:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2017
Balance as at the Beginning of the year	1,279,000
Charge for the year	<u>134,000</u>
Total	<u><u>1,413,000</u></u>

5.4.2.2 Liabilities

As of 31 December 2018 and 31 December 2017, the total liabilities of the Bank were RMB928.403 billion and RMB978.362 billion, respectively. The Bank's liabilities mainly consisted of (i) deposits from customers; (ii) debt securities issued; (iii) deposits from banks and other financial institutions; and (iv) placements from banks and other financial institutions, accounting for 56.5%, 20.1%, 8.7% and 4.6%, respectively, with respect to the Bank's total liabilities as of 31 December 2018.

The following table sets forth the components of the Bank's total liabilities for the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	of total (%)	Amount	of total (%)
Borrowings from central bank	41,718,868	4.5	48,160,000	4.9
Deposits from customers	524,940,548	56.5	473,580,808	48.4
Deposits from banks and other financial institutions	80,993,681	8.7	153,651,596	15.7
Derivative financial liabilities	758,626	0.1	1,268,879	0.1
Financial liabilities at fair value through profit or loss	14,601,560	1.6	18,553,887	1.9
Financial assets sold under repurchase agreements	32,309,138	3.5	75,623,265	7.7
Debt securities issued	186,567,225	20.1	140,920,240	14.4
Placements from banks and other financial institutions	42,821,263	4.6	51,323,948	5.2
Other liabilities ⁽¹⁾	<u>3,692,547</u>	<u>0.4</u>	<u>15,279,152</u>	<u>1.7</u>
Total	<u><u>928,403,456</u></u>	<u><u>100.0</u></u>	<u><u>978,361,775</u></u>	<u><u>100.0</u></u>

Note:

- (1) Including interest payable, amounts in settlement accounts, staff's remuneration payable, deferred income, tax payable, amounts in dormant accounts and other liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1. Deposits from Customers

As of 31 December 2018, the Bank's total deposits from customers (excluding interest payable) amounted to RMB514.167 billion, with an increase of RMB40.586 billion or 8.6% as compared with the amount recorded at the end of the previous year. Total deposits from customers (excluding interest payable) accounted for 55.4% with respect to the total liabilities, representing an increase of 7 percentage points as compared with the end of the previous year.

The following table sets forth the deposits structure of the Bank as of the dates indicated by product categories:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	of total (%)	Amount	of total (%)
Corporate deposits				
Demand deposits	157,657,454	30.7%	114,625,939	24.2
Time deposits	159,325,536	31.0%	172,364,434	36.4
Sub-total	<u>316,982,990</u>	<u>61.7%</u>	<u>286,990,373</u>	<u>60.6</u>
Personal deposits				
Demand deposits	16,571,753	3.2%	14,551,352	3.1
Time deposits	142,442,046	27.7%	127,528,837	26.9
Sub-total	<u>159,013,799</u>	<u>30.9%</u>	<u>142,080,189</u>	<u>30.0</u>
Other deposit ⁽¹⁾	<u>38,170,208</u>	<u>7.4%</u>	<u>44,510,246</u>	<u>9.4</u>
Total	<u>514,166,997</u>	<u>100%</u>	<u>473,580,808</u>	<u>100.0</u>

Note:

(1) Mainly including pledged deposits.

In 2018, the Bank's deposits from customers maintained a steady growth, mainly due to an increase in corporate deposits, of which, demand deposits from corporate customers increased by 37.5% as compared with the end of the previous year. This was primarily due to the fact that the Bank furthered its efforts in implementing the client-based marketing strategies, optimised its service channels and promoted the development of its branch network, resulting in attracting more customers.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

2. Debt Securities Issued

The following table sets forth the components of the Bank's debt securities issued (excluding interest payable) as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2018 Amount	As at 31 December 2017 Amount
Tier 2 capital bond with fixed rate maturing in May 2024	2,200,000	2,200,000
Tier 2 capital bond with fixed rate maturing in December 2025	10,000,000	10,000,000
Tier 2 capital bond with fixed rate maturing in December 2027	6,000,000	6,000,000
Small-micro enterprise financial fixed rate bonds maturing in August 2019	5,000,000	5,000,000
Small-micro enterprise financial fixed rate bonds maturing in August 2021	2,000,000	2,000,000
Financial fixed rate bonds maturing in August 2021	12,000,000	-
Financial fixed rate bonds maturing in October 2021	8,000,000	-
Financial fixed rate bonds maturing in November 2021	6,900,000	-
Interbank certificates of deposit issued	133,950,363	115,720,240
Total	186,050,363	140,920,240

The Bank issued tier-two capital bonds of commercial banks in the aggregate of RMB2,200 million in the national inter-bank bond market on 28 May 2014. The term of maturity of such bonds is 10 years. The interest rate is calculated based on fixed interest rate per annum. The coupon rate is interest-bearing fixed rate of 6.18%. Interest on such bonds shall be paid once per year. Upon approval by the CBIRC, the Bank could choose to redeem the current bond in a lump sum at a whole or at a portion per the face value on the last day of the fifth interest calculating year for such bonds.

The Bank issued tier-two capital bonds of commercial banks in the aggregate of RMB10 billion in the national inter-bank bond market on 4 December 2015. The term of maturity of such bonds is 10 years. The interest rate is calculated based on fixed interest rate per annum. The coupon rate is interest-bearing fixed rate of 4.57%. Interest on such bonds shall be paid once per year. Upon approval by the CBIRC, the Bank could choose to redeem the current bond in a lump sum at a whole or at a portion per the face value on the last day of the fifth interest calculating year for such bonds.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The Bank issued tier-two capital bonds of commercial banks in the aggregate of RMB6 billion in the national inter-bank bond market on 18 December 2017. The term of maturity of such bonds is 10 years. The interest rate is calculated based on fixed interest rate per annum. The coupon rate is interest-bearing fixed rate of 4.90%. Interest on such bonds shall be paid once per year. Upon approval by the CBIRC, the Bank could choose to redeem the current bond in a lump sum at a whole or at a portion per the face value on the last day of the fifth interest calculating year for such bonds.

The Bank issued financial fixed rate bonds in the aggregate of RMB5 billion on 26 August 2016 with the term of maturity of 3 years and an annual coupon rate of 3.00%.

The Bank issued financial fixed rate bonds in the aggregate of RMB2 billion on 26 August 2016 with the term of maturity of 5 years and an annual coupon rate of 3.10%.

The Bank issued 2018 financial fixed rate bonds I in the aggregate of RMB12 billion on 15 August 2018 with the term of maturity of 3 years and an annual coupon rate of 4.35%.

The Bank issued 2018 financial fixed rate bonds II in the aggregate of RMB8 billion on 25 October 2018 with the term of maturity of 3 years and an annual coupon rate of 4.10%.

The Bank issued 2018 financial fixed rate bonds III in the aggregate of RMB6.9 billion on 26 November 2018 with the term of maturity of 3 years and an annual coupon rate of 3.98%.

As of 31 December 2018, the balance of interbank certificates of deposit issued by the Bank was RMB133.95 billion.

3. *Equity attributable to shareholders*

The following table sets forth the components of the equity attributable to shareholders of the Bank as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	of total (%)	Amount	of total (%)
Share capital	5,796,680	10.2	5,796,680	11.1
Capital reserve	11,855,505	20.8	11,855,505	22.7
Surplus reserve	6,110,162	10.7	5,352,502	10.2
General reserve	12,571,882	22.0	11,034,031	21.1
Investment revaluation reserve	1,122,587	2.0	(335,375)	(0.6)
Provision reserve	5,311	0.0	–	–
Reserve on remeasurement of defined benefit liability	(13,877)	(0.0)	(6,076)	(0.0)
Retained earnings	19,009,618	33.3	17,984,108	34.4
Non-controlling interests	571,616	1.0	574,281	1.1
Total equity	57,029,484	100.0	52,255,656	100.0

5.4.3 Loan quality analysis

5.4.3.1 Breakdown of loans by the five-category classification

The following table sets forth the distribution of the Bank's loans and advances to customers by the five-category loan classification as of the dates indicated. The nonperforming loans of the Bank are classified as substandard, doubtful and loss.

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	of total (%)	Amount	of total (%)
Normal	352,718,824	93.7	270,618,933	96.8
Special mention	17,437,018	4.6	4,738,655	1.7
Substandard	6,181,817	1.6	3,892,356	1.4
Doubtful	219,069	0.1	226,086	0.1
Loss	40,632	0.0	37,388	0.0
Total loans and advance to customers	376,597,360	100.0	279,513,418	100.0
Non-performing loans	6,441,518	1.71	4,155,830	1.49

In 2018, the Bank continued to enhance its comprehensive risk management, to rigorously manage the incurrence of any additional risk and to intensify its effects in preventing the existing risks, and as a result the quality of our credit assets remained stable. As of 31 December 2018, the balance of non-performing loans of the Bank amounted to RMB6.442 billion and the non-performing loan ratio was 1.71%, representing an increase of 0.22 percentage point as compared to the ratio recorded at the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

5.4.3.2 Concentration of loans

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

Corporate loans consist of loans to customers in a broad range of industries. The following table sets forth the breakdown of loans and non-performing loans by the industry as of the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2018				31 December 2017			
	Loan amount	of total (%)	Non- performing loan amount	Non- performing loan ratio (%)	Loan amount	of total (%)	Non- performing loan amount	Non- performing loan ratio (%)
Wholesale and retail	173,690,903	46.0	2,950,915	1.70	100,926,576	36.1	402,498	0.40
Renting and business activities	43,515,629	11.6	10,490	0.02	43,369,518	15.6	4,991	0.01
Manufacturing	40,591,373	10.8	2,181,386	5.37	40,540,165	14.5	3,251,045	8.02
Real estate	28,954,810	7.7	82,922	0.29	28,298,413	10.1	13,922	0.05
Construction	19,190,327	5.1	411,499	2.14	10,241,283	3.7	286,594	2.80
Transportation, storage and postal services	3,895,292	1.0	63,560	1.63	7,529,093	2.7	2,000	0.03
Production and supply of electric power, heat, gas and water	5,245,370	1.4	11,891	0.23	4,624,882	1.7	-	-
Mining	2,864,996	0.8	19,597	0.68	2,821,800	1.0	-	-
Culture, sports and entertainment	1,893,934	0.5	48,000	2.53	2,527,612	0.9	10,000	0.40
Accommodation and catering	6,053,565	1.6	8,740	0.14	6,151,850	2.2	8,760	0.14
Agriculture, forestry, animal husbandry and fishery	2,568,981	0.7	14,950	0.58	2,618,419	0.9	58,000	2.22
Household and other service	1,352,600	0.4	-	-	1,696,850	0.6	-	-
Public administration and social organisation	-	-	-	-	180,000	0.1	-	-
Others	17,729,851	4.7	486,978	2.75	11,023,229	3.9	4,988	0.05
Discounted bills	3,597,503	1.0	-	-	1,955,529	0.7	-	-
Personal loans	25,452,226	6.7	150,590	0.59	15,008,199	5.3	113,032	0.75
Total	376,597,360	100.0	6,441,518	1.71	279,513,418	100.0	4,155,830	1.49

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

As of 31 December 2018, loans provided to customers in the industries of (i) wholesale and retail, (ii) renting and business activities, (iii) manufacturing and (iv) real estate represented the largest components of the Bank's corporate loans. As of 31 December 2018 and 31 December 2017, the balance of loans provided to the corporate customers in the four industries mentioned above were RMB286.753 billion and RMB213.135 billion, respectively, accounting for 76.1% and 76.3% respectively with respect to the Bank's total loans and advances to customers. In terms of component of increase, the wholesale and retail industry and the construction activities experienced the greatest increase, by 72.1% and 87.4% or by RMB72.764 billion and RMB8.949 billion, respectively.

2. Concentration of Borrowers

Loans to the ten largest single borrowers

The following table sets forth the amounts of loan facilities to the ten largest single borrowers as at 31 December 2018. As of the same date, all such loans were classified as normal.

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2018		
	Industry involved	Amount	of total (%)
Customer			
Customer A	Renting and business activities	6,930,000	1.84
Customer B	Real estate	6,139,979	1.63
Customer C	Renting and business activities	5,411,230	1.44
Customer D	Manufacturing	5,008,900	1.33
Customer E	Wholesale and retail	5,000,000	1.33
Customer F	Wholesale and retail	4,480,000	1.19
Customer G	Renting and business activities	4,097,309	1.09
Customer H	Construction	4,000,000	1.06
Customer I	Wholesale and retail	3,900,000	1.04
Customer J	Wholesale and retail	3,000,000	0.80

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

3. Distribution of Non-performing Loans by Product Type

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

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2018			31 December 2017		
	Loan amount	Non-performing loan amount	Non-performing loan ratio (%)	Loan amount	Non-performing loan amount	Non-performing loan ratio (%)
Corporate loans	351,145,134	6,290,928	1.79	264,505,219	4,042,798	1.53
Short-term loans	155,539,564	5,441,449	3.50	113,812,617	4,015,798	3.53
Medium and long term loans	192,008,067	849,479	0.44	148,737,073	27,000	0.02
Discounted bills	3,597,503	–	0.00	1,955,529	–	0.00
Personal loans	25,452,226	150,590	0.59	15,008,199	113,032	0.75
Residential mortgage	20,822,817	83,294	0.40	9,227,270	56,170	0.61
Personal business loans	732,873	6,969	0.95	1,062,927	14,332	1.35
Personal consumption loans	3,075,729	29,990	0.98	3,988,457	19,564	0.49
Credit card overdrawn	799,698	29,137	3.64	674,173	22,266	3.30
Other	21,109	1,200	5.68	55,372	700	1.26
Total	376,597,360	6,441,518	1.71	279,513,418	4,155,830	1.49

The non-performing loan ratio of the Bank was 1.71% and 1.49% as at 31 December 2018 and 31 December 2017.

As of 31 December 2018 and 31 December 2017, the non-performing loan ratio of the Bank's corporate loans (including discounted bills) was 1.79% and 1.53%, respectively.

As of 31 December 2018 and 31 December 2017, the non-performing loan ratio of the Bank's personal loans was 0.59% and 0.75%, respectively.

5.4.4 ANALYSIS ON CAPITAL ADEQUACY RATIO

The Bank calculates and discloses its capital adequacy ratios in accordance with the Regulations Governing Capital of Commercial Banks (Provisional) (商業銀行資本管理辦法(試行)) (effective since 1 January 2013) promulgated by the CBRC. As at 31 December 2018, the Bank's capital adequacy ratios at all tiers satisfied the regulatory requirements. The Bank's core tier-one capital adequacy ratio and tier-one capital adequacy ratio were both 8.52%, which were 0.52 percentage point lower than those at the end of the previous year; and the capital adequacy ratio was 11.86%, which was 0.99 percentage point lower than that at the end of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the relevant information of the Bank's capital adequacy ratio as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2018	31 December 2017
Core capital		
– Share capital	5,796,680	5,796,680
– Qualifying portion of capital reserve	11,855,505	11,855,505
– Surplus reserve	6,110,162	5,352,502
– General reserve	12,571,882	11,034,031
– Investment revaluation reserve	1,122,587	(335,375)
– Provision for impairment	5,311	–
– Retained earnings	19,009,618	17,984,108
– Qualifying portions of non-controlling interests	33,468	31,285
– Others	(13,877)	(6,076)
Core Tier-one Capital	56,491,336	51,712,660
Core Tier-one Capital deductions	(118,219)	(108,088)
Net Core Tier-one Capital	56,373,117	51,604,572
Other Tier-one Capital	–	–
Net Tier-one Capital	56,373,117	51,604,572
Tier-two Capital		
– Qualifying portions of tier-two capital instruments issued	18,200,000	18,200,000
– Excess provision for loan impairment	3,917,068	3,574,801
– Core Tier-two Capital deductions	–	–
Net Tier-two Capital	22,117,068	21,774,801
Total net Capital	78,490,185	73,379,373
Total risk weighted assets	661,889,166	571,122,793
Core Tier-one Capital adequacy ratio	8.52%	9.04%
Tier-one Capital adequacy ratio	8.52%	9.04%
Capital adequacy ratio	11.86%	12.85%

5.4.5 Segment information

5.4.5.1 Summary of Geographical Segment

The Bank is mainly operating within China. It has 18 branches in five provinces and municipalities directly under the Central Government. It has also established seven subsidiaries in Liaoning Province, Shanghai Municipality and Zhejiang Province

(Expressed in thousands of Renminbi, unless otherwise stated)	Operating income As at 31 December				Non-current assets As at 31 December			
	2018		2017		31 December 2018		31 December 2017	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Northeast China Region	13,818,965	87.0	11,526,922	87.0	5,082,828	93.5	5,169,995	93.5
North China Region	1,682,020	10.6	1,294,866	9.8	307,646	5.6	327,394	5.9
Others	384,481	2.4	427,895	3.2	46,304	0.9	34,121	0.6
Total	15,885,466	100.0	13,249,683	100.0	5,436,778	100.0	5,531,510	100.0

5.4.5.2 Summary of Business Segment

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

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2018		As at 31 December 2017	
	Amount	of total (%)	Amount	of total (%)
Operating in-come				
Corporate banking	9,526,507	60.0	7,453,248	56.3
Personal banking	1,238,046	7.8	1,247,347	9.4
Treasury business	5,085,250	32.0	4,482,436	33.8
Others	35,663	0.2	66,652	0.5
Total	15,885,466	100.0	13,249,683	100.0

5.4.6 Analysis of Off-balance Sheet Items

Credit commitments and other off-balance sheet items of the Bank mainly include bank acceptance bills, issued letters of credit, issued letters of guarantee, unused credit card commitments, operating lease commitments and capital commitments. Credit commitments constitute the major component of off-balance sheet items, and consist of bank acceptance bills, issued letters of credit, issued letters of guarantees, and unused credit card commitments. Bank acceptance bills are commitments made to the payment for a bank draft issued by the Bank's customers. The letters of guarantees and the letters of credit are issued by the Bank to guarantee the customer's contractual performance for a third party. The following table sets forth the Bank's credit commitments, and other off-balance sheet items as at the dates indicated:

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2018	31 December 2017
Unused credit card commitments	3,450,469	2,246,054
Guarantees, acceptances and letters of credit	168,013,533	170,781,889
Operating lease commitments	684,937	670,345
Capital commitments	478,644	506,604
Pledged assets	146,554,408	230,677,111
Total	319,181,991	404,882,003

5.5 BUSINESS OVERVIEW

5.5.1 Corporate Banking Business

5.5.1.1 Corporate Deposits

In 2018, the Bank further implemented its customer-centric marketing strategy and actively developed more strategic customers, group customers and institutional customers and provided them with whole-chain and integrated financial services, so that its comprehensive service capabilities and market influence were effectively improved. At the same time, the Bank further expanded the scale of fund collection from customers and agency settlement, and the basic customers and corporate deposits maintained steady growth. As at 31 December 2018, the balance of corporate deposits of the Bank amounted to RMB316.983 billion, which accounted for 61.7% of the balance of all kinds of deposits, representing an increase of RMB29.993 billion or 10.5% compared to last year.

According to the information provided by the Business Management Department of the PBOC Shenyang Branch, as at 31 December 2018, the balance of Renminbi corporate deposits with the Bank in Shenyang area amounted to RMB224.628 billion, ranking first among the banks in Shenyang area for consecutive years. The Renminbi corporate deposits with the Bank in Shenyang area represent a market share of 25%, which is the same as that at the end of last year.

5.5.1.2 Corporate Loans

In 2018, in line with the development of the real economy, the Bank effectively seized the opportunities brought by the transformation in the regional economic structure, optimised the allocation of its credit resources, and increased credit granting to quality industries and customers. At the same time, the Bank positioned the mainstream industry and mainstream customers in the region, promoted cooperation with local governments, institutional clients and enterprises concerning people's livelihood, and the corporate loans maintained steady growth. As at 31 December 2018, the balance of our corporate loans (excluding discounted bills) amounted to RMB347.548 billion, representing an increase of RMB84.998 billion or 32.4% as compared to last year.

In terms of corporate loans, the Bank insisted on returning to its roots and serving the real economy. First, the Bank proactively responded to key regional development strategies, strengthened the optimal allocation of credit resources, and provided credit in the most suitable way in the process of national consumption upgrading, industrial upgrading and structural upgrading, improved the efficiency of capital use, and focused on strengthening credit support for key projects. Second, the Bank continued to expand support for key areas by vigorously supporting the development of strategic emerging industries such as private business, green and environmental protection industry, and high-end equipment manufacturing industry, and fully supporting the rapid growth of the real economy. Third, the Bank expanded support for micro, small, medium-sized enterprises, and effectively took measures to improve the efficiency of credit business review, offer more preferential credit policies to certain businesses, and reduce corporate financing costs, thus it effectively met the financing needs of enterprises.

5.5.2 Retail Banking

5.5.2.1 Personal Deposits

The Bank continued to dig the potential of existing customers and develop new customers, and implemented integrated marketing. The Bank adhered to the customer-centered approach, implemented hierarchical management, improved precision service capabilities, and added self-service equipment such as smart counters to improve service efficiency. It continued to innovate products, optimize the functions of products, and continued to increase the size of savings deposit with a sound product mix and flexible pricing strategy. As at 31 December 2018, the balance of our personal deposits amounted to RMB159.014 billion, representing an increase of RMB16.934 billion or 11.9% compared to the end of the previous year, of which the balance in Shenyang area amounted to RMB131.539 billion, representing 17.8% of the balance of all banking institutions in Shenyang city. The increase in our deposits amounted to RMB13.824 billion, representing a share of 17.4% of the total increase of all banking institutions in Shenyang city. Both the balance of and increase in our personal deposits ranked the first in Shenyang city.

5.5.2.2 Personal Loans

The Bank adhered to the retail transformation strategy, continued to increase the issuance of personal loans through differentiated authorization management, and continued to meet the product needs of individual customers by creating a product mix featuring consumption and business types, ensuring stable and sustainable business development. Personal loans (including mortgage loans, personal consumption loans, credit cards, personal business loans and other personal loans) increased by RMB10.444 billion or 69.6% to RMB25.452 billion as compared to the end of the previous year, of which personal mortgage loans increased by RMB11.596 billion to RMB20.823 billion compared to the end of the previous year; credit cards increased by RMB126 million to RMB800 million as compared to the end of the previous year.

5.5.2.3 Bank Cards

The Bank continued to enrich the contents of bank card services, and enhanced customer stickiness and increase the utilization frequency of bank cards by offering scenario-based services.

As at 31 December 2018 the Bank has issued 12.8594 million debit cards in total, representing an increase of 1.2338 million compared to the beginning of the year, with a total consumption transaction amount of RMB32.677 billion.

5.5.2.4 Wealth Management Business

The Bank adhered to the customer-centered approach and a sound investment philosophy, actively innovated products, enhanced investment research capabilities, and promoted the upgrades of operational management, so that the Bank achieved excellent asset structure and quality, effectively increased the support for the real economy, further optimized the functions of products, and gradually enhanced customer experience, gradually increased business performance and has formed a strong core competitiveness of its brand.

As at 31 December 2018, the Bank offered a total of 800 tranches of wealth management products, with a total offer amount of RMB114.611 billion, and a renewed balance of RMB57.052 billion. The Bank gained an income of RMB383 million from wealth management.

5.5.3 Treasury and Investment Banking Business

In 2018, the PBOC has implemented a prudent monetary policy and has adopted a series of countercyclical adjustment measures in a forward-looking manner to create a suitable monetary and financial environment for supply-side structural reform and high-quality development, and maintain a reasonable liquidity, so that the capital market interest rates continued to decline. The Bank's treasury business focused on light assets and light capital, and it continued to adjust and optimize the asset and liability structure, put efficiency and quality in the first place, and implemented diversified strategic measures to achieve balanced development of efficiency and quality as well as scale.

1. Monetary Market Transactions

In 2018, the Bank's monetary market business returned to its roots. Through a forward-looking financing strategy and a diversified financial mode, the Bank took effective measures to deal with the fluctuations in the capital market, timely reduced the duration of liabilities, and effectively optimized the financing structure. As at 31 December 2018, the balance of the deposits and placements from banks and other financial institutions and the financial assets sold under repurchase agreements of the Bank was RMB156.124 billion, accounting for 16.8% of the total liabilities of the Bank; the balance of the deposits and placements with banks and other financial institutions and the financial assets held under resale agreements of the Bank was RMB33.646 billion, accounting for 3.4% of the total assets of the Bank.

2. Investment in Securities and Other Financial Assets

In 2018, according to the market conditions, the Bank adjusted the investment strategy of capital business in a timely manner, optimized the bond positions structure, took good use of the high interest rate at the beginning of the year, appropriately lengthened the bond duration, and sold short-term premium bonds after the interest rate fell, thus raising the net income of investment. Second, the Bank adhered to the light capital business oriented operation, issued prioritised asset-backed securities products and made public fund investments, thus improving the return on asset portfolio.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

1) *Financial investment (excluding interest receivable) by business mode and holding purpose*

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2018		31 December 2017	
	Amount	Of total (%)	Amount	Of total (%)
Financial assets at fair value through profit or loss	151,690,685	32.3	–	–
Financial assets at fair value through other comprehensive income	58,741,147	12.4	–	–
Financial assets measured at amortised cost	259,896,591	55.3	–	–
Available-for-sale financial assets	–	–	103,729,104	18.3
Held-to-maturity investments	–	–	224,536,165	39.6
Investments classified as receivables	–	–	238,100,568	42.1
Total	470,328,423	100.0	566,365,837	100.0

As at 31 December 2018, the Bank's total financial investment (excluding interest receivable) decreased by RMB96.037 billion compared to the end of the previous year.

2) *Distribution of financial investment (excluding interest receivable) by remaining maturity*

(Expressed in thousands of Renminbi, unless otherwise stated)	31 December 2018		31 December 2017	
	Amount	Of total (%)	Amount	Of total (%)
Within 3 months	112,393,557	23.8	89,321,039	15.8
3 months to 12 months	91,189,837	19.4	166,501,050	29.4
1 year to 5 years	92,446,143	19.7	221,666,104	39.1
More than 5 years	174,298,886	37.1	88,877,644	15.7
Total	470,328,423	100.0	566,365,837	100.0

As at 31 December 2018, the Bank's financial investment (excluding interest receivable) with a remaining maturity of less than 12 months decreased by RMB52.239 billion compared to the end of the previous year, representing a decrease of 2 percentage points as to the proportion to the total securities investment.

5.5.4 Trade Finance

In 2018, with the continuous deepening of the integrated management of home and foreign currency, the Bank actively built a comprehensive and diversified transaction banking system. Focusing on the daily trading activities of customers, the Bank promoted product integration and platform building of transaction banking, to effectively prevent and control risks, comply with regulations, and continuously enhance trade finance service capacities.

In 2018, all trade and finance indicators of the Bank continued to demonstrate a steady growth. Its settlement amount reached US\$14.133 billion, representing a year-on-year increase of 9%; and it realised revenue of RMB1.737 billion, representing a year-on-year increase of 48%.

5.5.5 Distribution Channels

5.5.5.1 Physical Outlets

As at 31 December 2018, the Bank has established 205 outlet networks, including one head office, three branch-level specialised institutions 18 branches 175 traditional branches, and 8 sub-branches. Most of the operating institutions are located in developed regions such as Northeast China, the Bohai Rim and the Yangtze River Delta Economic Zone, which enjoy advantageous policies and huge market opportunities, thus the Bank has formed a development layout of “One Headquarters and Two Centers”.

5.5.5.2 Self-service Banking

The Bank accelerated the development of smart and light outlets and enhanced service capacities of the outlets by putting in place new self-serving facilities such as smart counters, high-speed cash recycling systems and interactive tables. As at 31 December 2018, the Bank owned 2,934 self-service facilities, including 325 ATMs, 313 cash recycling systems, 115 inquiry and payment machines, 249 card activating machines, 41 VTMs, 30 online banking machines, 30 mobile banking machines, 47 smart queuing machines, 212 smart counters, 30 high-speed cash recycling systems, 22 interactive tables and 1,520 smart self-service terminals in communities, providing its customers with financial services such as cash withdrawal, account inquiry, cash deposit, change of password, fund transfer, card activating, and activating of e-channel and short message alerts.

5.5.5.3 Electronic Banking

The Bank adhered to the principle of customer first and meeting customers' preference and pushed forward function upgrading of mobile banking and online banking, which resulted in enhanced customer experience and steady increment in customer access and trading volume.

1. *Online Banking*

1) Corporate Online Banking

In response to the demands of corporate customers, the Bank continued enhancing its online services for corporate capital and actively improved the settlement efficiency and the comprehensive services. As at 31 December 2018, the Bank had cumulatively 23,223 online banking corporate customers, representing an increase of 25% compared to the end of the previous year; RMB2,546.847 billion in the cumulative transaction value, representing a year-on-year increase of 43%; and 1,170,900 transactions, representing a year-on-year increase of 31%.

2) Personal Online Banking

The Bank made continuous efforts to meet the needs of personal online banking customers and constantly optimised the services and functions of its personal online banking. As at 31 December 2018, the Bank had cumulatively 401,900 online banking personal customers, representing an increase of 30% compared to the end of the previous year; 1,230,600 transactions for the year, representing a year-on-year increase of 41%; and RMB34.912 billion in the cumulative transaction value for the year, representing a year-on-year increase of 22%.

2. *Mobile Banking*

The Bank adhered to its strategy of taking mobile banking as a priority and focused on mobile financial services. It constantly optimised the services and functions of its mobile banking and enhanced interactive customer experience and function developing capacities. As at 31 December 2018, the Bank had cumulatively 992,200 mobile banking customers, with 2.6742 million transactions of a cumulative transaction value of RMB20.497 billion for the year 2018.

5.5.6 Subsidiaries

5.5.6.1 Investments in subsidiaries

(Expressed in thousands of Renminbi, unless otherwise stated)	As at 31 December 2018	As at 31 December 2017
Shenyang Shenbei Fumin Rural Bank Co., Ltd. ("Shenyang Shenbei")	35,321	35,321
Shenyang Xinmin Fumin Rural Bank Co., Ltd. ("Shenyang Xinmin")	6,230	6,230
Shenyang Faku Fumin Rural Bank Co., Ltd. ("Shenyang Faku")	6,262	6,262
Shenyang Liaozhong Fumin Rural Bank Co., Ltd. ("Shenyang Liaozhong")	6,097	6,097
Ningbo Jiangbei Fumin Rural Bank Co., Ltd. ("Ningbo Jiangbei")	30,039	30,039
Shanghai Baoshan Fumin Rural Bank Co., Ltd. ("Shanghai Baoshan")	62,208	62,208
Shengjing Bank Consumer Finance Co., Ltd. ("Shengjing Consumer")	180,000	180,000
Total	326,157	326,157

As at 31 December 2018, the background information of subsidiaries is set out below:

	Date of incorporation	Place of incorporation, registration and operations	Registered capital (Expressed in thousands of Renminbi)	Percentage owned by the Bank	Business sector
Shenyang Shenbei	09/02/2009	Liaoning, China	150,000	20%	Banking
Shenyang Xinmin	25/06/2010	Liaoning, China	30,000	20%	Banking
Shenyang Faku	26/10/2010	Liaoning, China	30,000	20%	Banking
Shenyang Liaozhong	26/11/2010	Liaoning, China	30,000	20%	Banking
Ningbo Jiangbei	17/08/2011	Zhejiang, China	100,000	30%	Banking
Shanghai Baoshan	09/09/2011	Shanghai, China	150,000	40%	Banking
Shengjing Consumer	25/02/2016	Liaoning, China	300,000	60%	Consumption finance

5.6 RISK MANAGEMENT

Major risks to which the Bank is exposed include credit risk, operational risk, market risk, liquidity risk, technology risk, reputation risk, compliance risk, anti-money laundering management, etc. In 2018, as affected by multiple factors such as continuous promotion of structural optimisation in domestic policies, stricter regulatory control on financial system, and increasingly frequent international trade conflict, the external environment faced by the Bank remained complex and variable. In this regard, the Bank always adhered to a prudent and sound risk control strategy, placed risk prevention at the forefront, took “risk prevention, restructuring and quality maintenance” as priority, actively optimised concept of risk management, and further improved comprehensive risk management system. As a result, the quality and effectiveness of risk management significantly improved and sound operations of various businesses were achieved.

5.6.1 Credit Risk Management

Credit risk occurs when customers or counterparties are unable or unwilling to perform their obligations to the Bank. The credit risk exposure of the Bank mainly exists in the credit business and treasury business.

In 2018, against the backdrop of “averting risks, de-leveraging and strengthening supervisions and regulations”, the Bank implemented the operation philosophy of “taking compliance as the key foundation of the Bank” (合規立行), strictly guarded against the bottom line of risk, and according to the principles of harmonious development in terms of effectiveness, quality and scale to adjust the structure on the basis of resource allocation, stabilize the asset quality by consolidating and defusing risk, so as to effectively fortify risk defense line and realise compliance and sound operation of all assets business. Firstly, within the framework of comprehensive risk management, the Bank continuously deepened the construction of credit system. By considering the business development and regulatory requirements, the Bank continuously consolidated system foundation, standardized process arrangement and constantly standardized the construction of credit mechanism and system. Secondly, rigorously preventing the emergence of incremental risks. The Bank firmly support the development of the real economy, focused on the customer strategy of “quality customers in quality sectors, mainstream customers in mainstream markets” (雙優、雙主), further explored local quality resources and dug deep into quality customer base, effectively guiding resources towards industries and customers which have undergone risk filtering, and as a result, the asset and business structure was further optimized. Thirdly, rigorously controlling the incurrence of existing risks. The Bank implemented a centralized management system for credit business by adhering to preventing loss of the ultimate assets, starting from risk correction and adopting the way of policy implementation according to different types. The head office and branches took joint action to prudently find out the real situation, promoted the defusing and disposal of risk and continuously strengthen the quality of its assets.

5.6.2 Operational Risk Management

Operational risk refers to the risk of loss caused by inadequate or problematic internal procedures, personnel and information technology systems as well as external events.

In 2018, the Bank strengthened the operational risk management. Firstly, organizational structure of operation risk management was further improved. The Bank specified and constructed operational risk governance structure by following the principle of “Three Lines of Defense” and according to its own characteristics, scale, business complexity and risk status. Secondly, standard of operational risk refined management was enhanced. The Bank continuously improved its rules and regulations on operational risk management covering the whole lines, whole process, all positions and all products, and constantly optimised operational risk management mechanism by keeping pace with the changes in regulatory policy and the emphasis area of regulation. Thirdly, operational risk assessment was strengthened. The Bank conducted operational risk evaluation, monitored the key indicators of operational risk for pre-warning and reporting, and included operational risk management into the performance assessment, so as to effectively exert caution in preventing risks and hidden problems in key areas. Fourthly, awareness of all staff towards the liability associated with operational risks was further enhanced. The Bank prepared Practical Handbook for Operational Risk Points (《操作風險點實用手冊》) against the key process and major areas that may cause operational risk, including assets business and counter business, standardized business operation in the whole bank, also made greater efforts to provide trainings on job skills, practical cases and others, with a view to enhancing the capabilities of all staff to identify and control operational risk.

5.6.3 Market Risk Management

Market risks refer to the risk of losses that may be suffered by the Bank's on/off-balance sheet business as a result of unfavourable changes in market price, including interest rate, exchange rate, stock price and commodity price. Such risks mainly include interest rate risk and exchange rate risk.

Facing the complicated and changing external environment in 2018, the Bank continued to strengthen market risk management and control, forecasted and proactively made a judgment of the macroeconomic trends and market changes, and conducted market risk identification, measurement, evaluation and management on related businesses by using an array of risk management tools, such as sensitivity analysis and exposure analysis. With a view to limiting the market risk within a tolerable extent, the Bank further placed a strict limit for managing market risk and conducted regular stress tests on market risk to improve risk assessment under stress scenarios and comprehensively identify, accurately measure and continuously monitor the market risk.

5.6.3.1 Market Risk of Bank Accounts

1. Interest Rate Risk Management

The interest rate risk in the banking book refers to risks of losses in economic value and overall income in the banking book due to adverse changes in interest rate level, term structure and other elements, including gap risk, basis risk and optional risk.

During the Reporting Period, the global economy maintained an overall growth momentum with such characteristics that the synchronism of economic growth declined in general, monetary policy was differentiated gradually, and domestic and foreign market interest rates continued to change. The monetary policy of the PBOC gradually changed from “reasonably stable” to “reasonably adequate” with narrowed spreads between market interest rate with different durations. The CBIRC officially promulgated the Guidelines on the Management of Interest Rate Risk in the Banking Book of Commercial Banks (Revised) (《商業銀行銀行帳簿利率風險管理指引(修訂)》) in May 2018, which raised specific requirements from the perspectives of risk management framework, data, model, system, measurement and regulatory inspection. As such, the financial institutions needed to meet more stringent and prudent requirements in the management of interest rate risk.

Facing the developments in external environment, the Bank proactively analyzed and researched the domestic and international macroeconomic situation and regulatory policy environment, improved the interest rate risk management structure and system of banking book, optimized the limit indicators of interest rate risk of banking book, and strengthened limit management. The Bank continued to make comprehensive use of multiple methods including gap analysis, scenario simulation and stress test to measure, monitor and analyze interest rate risk management of banking book. The Bank also reasonably applied price adjustment and control management means such as pricing mechanism for internal fund transfer to enhance the capacity for market-oriented, self-discretionary and differentiated pricing, reasonably set up asset and liability product portfolios and term structures, and optimised the allocation of term structure of assets and liabilities. With all these efforts, the Bank was able to control the interest rate risk in the banking book within the tolerable range.

2. Exchange Rate Risk Management

Exchange rate risk refers to the risk arising from the mismatch of the currency denominations between assets and liabilities. The Bank’s exposure to the exchange rate risk of bank accounts is mainly arisen from proprietary foreign exchange businesses and the mismatch of currencies in deposits and loans.

In 2018, the Bank strengthened the tracking and evaluation of the domestic and international economic and financial situation and the trend of exchange rates between home and foreign currency, assessed the impact of changes in asset and liability portfolios on foreign exchange risk so as to prepare countermeasures in advance and close out market positions. The Bank also regularly re-evaluated the market value of its own foreign exchange capital and supplemented the security under assets business in a timely manner. Overall, the Bank effectively prevented the exchange rate risk.

5.6.3.2 Market Risk Management of Trading Accounts

The market risk of trading accounts of the Bank arises primarily from the changes in asset values of financial products in the trading accounts due to changes in interest rates and exchange rates.

During the Reporting Period, the Bank revised the “Implementation Rules for Market Risk Management of Shengjing Bank (Revised)” (《盛京銀行市場風險管理實施細則(修訂)》) according to the business development, and continuously strengthened the risk control and prevention for various businesses including local currency business, foreign currency business and derivatives business. The Bank reevaluated the market value of the position in its trading accounts on a daily basis by setting risk limit indicators such as trading exposure limit, stop-loss limit and value-at-risk limit for different products in its trading accounts. The Bank also measured the market risk of Renminbi and foreign currency trading accounts by conducting regular sensitivity analysis, scenario analysis and stress test, and periodically conducted post-event inspections according to the predicted results of market risk stress tests.

5.6.3.3 Interest Rate Risk Analysis

Management of interest rate risk mainly aims at reducing the potential adverse impacts on the net interest income and economic value caused by the changes in the interest rate.

The interest rate risk of the Bank mainly includes the repricing risk and the risk of treasury position. Repricing risk is also referred to as the risk of maturity mismatching and is the primary and most common form of interest rate risk. It arises from the mismatch between the maturity of on-balance sheet bank’s assets, liabilities and off-balance sheet business (in the case of fixed interest rate) and the maturity of repricing (in the case of floating interest rate). The asymmetry of repricing leads to the changes of a bank’s current revenue or economic value caused by the changes in the interest rates. Based on the changes in the market situation, the Bank flexibly adjusted its management measures against interest rate risk to ensure its exposure to interest rate risk is reasonable and controllable.

5.6.4 Liquidity Risk Management

Liquidity risk refers to the risk of failure to timely obtain adequate funds at a reasonable cost to repay debts when due, perform other payment obligations, or satisfy other capital needs in the ordinary course of business.

The Bank closely monitored the impact on the Bank's liquidity of the developments in domestic and international economic and financial sectors, fiscal policies, monetary policies and financial market. By continuously improving the forward-looking, anticipatory and proactive natures of liquidity management, the Bank ensured that its liquidity level is adequate and stable. Firstly, the Bank attached great importance to liquidity risk management, continuously improved the governance system of liquidity risk, and enhanced awareness and capability on risk prevention and control. Secondly, the Bank strengthened the analysis and research on the tendencies of economic and financial policies as well as the way of change in market capital in order to adjust the liquidity management strategies in a forward-looking manner, to carry out liquidity arrangement in a sound way and to enhance the ability to cope with market capital fluctuations. Thirdly, the Bank strengthened the management of assets and liabilities portfolio and optimised the total amount and structure of assets and liabilities. The Bank broadened the source of funding, strengthened its diversification and stability, improved reserve system of current assets and enhanced asset liquidity and the ability to monetise assets. Fourthly, the Bank strengthened the monitoring and early warning management of liquidity indicators, enriched monitoring methods of liquidity, strictly implemented the required management in liquidity risk limits and enhanced the levels in liquidity risk monitoring, identification, measurement and prevention. Fifthly, the Bank strengthened the construction of liquidity emergency response mechanism, improved liquidity risk contingency plan, enriched the liquidity emergency supplementary channels, and enhanced the ability and efficiency of liquidity risk emergency response. Sixthly, the Bank strengthened the construction of mutual liquidity support mechanism, participated in the mutual liquidity support mechanism, which was jointly established by all urban commercial banks in the province under the leadership of Liaoning Banking Association, further improving the liquidity supplement and risk prevention capabilities.

5.6.4.1 Liquidity Risk Analysis

Facing the constant changes in the macroeconomic environment, currency policy and regulatory policy, the Bank adhered to its prudent and sound strategies for liquidity risk management to continuously strengthen the balance management of gross amount and structure of assets and liabilities. The Bank emphasized on being initiative and preventive in liquidity management. By strengthening the works of monitoring and early warning of liquidity indicators as well as term structure of assets and liabilities, the Bank carried out liquidity arrangement in advance and effectively managed liquidity risks. The Bank optimized assets and liabilities portfolio management and reasonably allocated the term structure of assets and liabilities to ensure that the Bank would have sufficient liquidity. During the Reporting Period, the Bank's liquidity level was sufficient and stable and there was no liquidity risk.

5.6.5 Information Technology Risk Management

Information technology risk refers to the risk that may occur to the Bank's operation, reputation or legal compliance in the process of applying information technology due to factors such as natural factors, human factors, technological limitations and management inadequacy.

In 2018, with respect to prevention of information technology risks, the Bank continued its efforts to enhance its prevention level of information technology risks by means of daily monitoring, regular check, assessment of information security and rectification of risks. Firstly, in the information security, information system research and development and information technology operation, through the identification, measurement and monitoring of risks, the Bank established a normalized monitoring and control mechanism for information technology risk, effectively guaranteeing the healthy, sustained and steady progress of various businesses of the Bank. Secondly, the Bank carried out special investigations on payment security risks by conducting investigations on the aspects of user-side application software and payment business systems, and rectified the problems identified in a timely manner, further strengthening the network and information security management in the payment sector, and effectively preventing payment risk. Thirdly, the Bank continuously optimised the research and development of risk management mechanism, and utilized code security inspection tools to detect potential risks in software development, so as to improve the code security. Through standardizing the functional testing and performance testing in information system development, it detected loophole to avoid risks in a timely manner. The Bank also tightened the risk assessment before the launch of information system, and control project quality to prevent from system operation risks. Fourthly, the Bank conducted assessment on information technology risks on a regular basis and, according to the risk alerts and key points of information technology risks administration of the regulators, it strengthened daily regulation of information technology risks, so as to provide technological support to the business development. Fifthly, the Bank enhanced its protection capabilities through optimising the information security system. Targeting the new threat, the Bank optimised the protection strategy of information security system to prevent intrusion events. Through upgrading the anti-virus system of server, operating and maintaining the audit platform, operating monitoring system, comprehensively running security management platform and database audit system, the Bank monitored, detected and dealt with the safety loophole in a timely manner and enhanced the management and control ability of information security.

5.6.6 Reputational Risk Management

Reputational risk refers to the risk that may cause negative comments on the Bank made by relevant interested parties due to the acts relating to the Bank's operation, management and other aspects or other external incidents.

In 2018, the Bank continued to improve the quality and efficiency of its reputational risk management work. Firstly, the Bank continuously strengthened internal management, revised and improved the systems relating to reputational risk management to further clarify the organisational structure and work flow of reputational risk management. Secondly, the Bank continuously strengthened its effort in monitoring public opinion, enriched the public opinion monitoring platform, expanded the coverage of public opinion monitoring, and strictly implement a daily report system of "zero incident" and a watch system of 7*24 hours of network-wide public opinion monitoring. Thirdly, the Bank further improved the prevention and control of the reputational risk, carried out inspections and assessment of reputational risk on a regular basis to enhance the awareness of reputational risk prevention and control, and properly respond to and deal with negative public opinion. Fourthly, the Bank proactively carried out positive promotion work, made full use of various media resources to carry out the promotion of business products and corporate brand image, effectively enhancing the Bank's popularity and influence.

5.6.7 Compliance Risk Management

The Bank set a compliance objective of "establishment of a sound compliance management system that is compatible with the Bank's development strategy and organizational structure to achieve effective identification and management on compliance risks, and adopt effective control measures to provide guarantee for compliance operations" to ensure the Bank could operate according to law and develop in a steady and sound pace, so as to enhance the Bank's core competitiveness.

Firstly, the Bank continued to improve the organizational structure of compliance risk management by strictly implementing the Bank's compliance risk management policies. Meanwhile, it formulated and implemented a compliance management plan focusing on risk control, and carried out the construction of a whole-process compliance management mechanism, thereby effectively improving the quality and effectiveness of its compliance management through following the principles of "giving highest priority to compliance (合規至上)", implementing the operation philosophy of "taking compliance as the key foundation of the Bank" (合規立行), strictly guarding against the bottom line of risk. Secondly, the Bank implemented the compliance management functions such as system construction, compliance review, compliance inspection, assessment and evaluation, and accurately captured the trend in regulatory policy changes, enabling it to realise the effective identification, measurement, assessment, management and reporting of its compliance risk exposure. Thirdly, the Bank actively promoted the construction of compliance culture, revised the Compliance Manual as a compliance guide to strengthen the three-pronged staff conduct requirement. Through establishment of a staff conduct requirement system that featured "regulations for positive conduct, prohibitions against negative conduct and penalties for violations", the Bank developed a compliance culture of "prohibiting breaching the rules, not daring to breach the rules and unwilling to breach the rules".

5.6.8 Anti-Money Laundering Management

The Bank solidly and effectively pushed forward the anti-money laundering work by continuing to strengthen the management on money laundering risk, thoroughly implementing various laws and regulations on anti-money laundering, continuously improving the money laundering risk management system, and constantly enhancing the management efficiency of anti-money laundering work. In accordance with the spirit of the “Opinions on Improving the Regulatory Systems and Mechanisms for Fighting against Money Laundering, Terrorist Financing and Tax Evasion (《關於完善反洗錢、反恐怖融資、反逃稅監管體系機制的意見》)” issued by the State Council, and based on the needs of business development and risk management, the Bank continuously improved the inspection and supervision system for anti-money laundering, and devoted greater efforts in the daily supervision of anti-money laundering, strengthened the special training and promotion on anti-money laundering, and continuously improved the identification of institutional clients, preservation of clients identity data and transaction records, monitoring and analysis of capital transactions, reporting of large-amount transactions and suspicious transactions, thus it effectively enhanced the effectiveness of anti-money laundering work, and enhanced the overall standard of anti-money laundering work of the Bank in a steady pace.

SIGNIFICANT EVENTS

RELATED PARTY TRANSACTIONS

No material related party transaction that has adverse impact on the Bank's business results and financial position occurred during the Reporting Period.

MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Bank was not involved in any litigation or arbitration that would materially affect its business operations.

PUNISHMENT ON THE BANK AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the Reporting Period, none of the Bank, the Directors, the Supervisors or the senior management of the Bank was subject to any investigation, administrative penalty or public criticism by the China Securities Regulatory Commission (the "CSRC") or the CBIRC, or any public censure by any securities exchange, or any punishment by any other regulatory authorities which would have a material impact on the Bank's operations.

ACQUISITION AND DISPOSAL OF ASSETS AND BUSINESS MERGER

During the Reporting Period, the Bank did not conduct any acquisition and disposal of assets or any business merger.

REPAYMENT OF THE RELEVANT RECEIVABLES BY SHENYANG HENGXIN

Reference is made to pages 164 and 165 of the prospectus of the Bank dated 15 December 2014 (the "Prospectus") in connection with the global offering of H Shares. As disclosed in the Prospectus, on 8 October 2014, Shenyang Hengxin undertook to the Bank that, among others, it will use the proceeds from disposing of the Shares it held to repay the outstanding balance of a loan in the amount of RMB1,723 million (such loan is classified as "Other Receivables" as the loan is interest-free) (the "Relevant Receivables") owed by Shenyang City Infrastructure Construction Investment Development Co., Ltd. (瀋陽市城市基礎設施建設投資發展有限公司) ("Shenyang City Construction") in full within two years from the date on which the H Shares first commenced trading on the Hong Kong Stock Exchange.

Reference is also made to (i) the circular of the Bank dated 5 August 2015 in relation to the proposed plan for the A Share Offering; and (ii) the announcements of the Bank dated 5 July 2015, 27 August 2015, 27 November 2015 and 30 November 2015 in relation to, among other things, the A Share Offering. As confirmed by the Bank's PRC legal advisers, pursuant to the relevant PRC laws and regulations as well as the regulatory requirements of the CSRC and the relevant stock exchange, Shenyang Hengxin, as a major holder of Domestic Shares, is not allowed to dispose of any Domestic Shares held by it before completion of the A Share Offering. In addition, the Domestic Shares held by Shenyang Hengxin will be subject to lock-up for 36 months from completion of the A Share Offering (the "Lock-up Period"). After negotiation among the Bank, Shenyang City Construction and Shenyang Hengxin regarding repayment of the outstanding balance of the Relevant Receivables, on 11 November 2016, Shenyang Hengxin provided a supplemental undertaking to the Bank that: (i) Shenyang Hengxin will continue to perform its obligations (including using the proceeds from disposal of a portion of the Shares it held to repay the outstanding balance of the Relevant Receivables) to repay the outstanding balance of the Relevant Receivables in full within 24 months from the expiry of the Lock-up Period; and (ii) without the Bank's written consent, Shenyang Hengxin will not dispose of any Shares it held, nor will it pledge or transfer any or all of such Shares or create any encumbrances on such Shares prior to the full repayment of the outstanding balance of the Relevant Receivables.

Reference is further made to (i) the announcement of the Bank dated 31 March 2017 in relation to the withdrawal of its A-share listing application; and (ii) the announcement of the Bank dated 13 April 2017 in relation to the repayment of the Relevant Receivables by Shenyang Hengxin. The Bank and Shenyang Hengxin have been proactively pushing forward the relevant work related to the repayment of the Relevant Receivables, including but not limited to, going through the relevant approval procedures in accordance with the applicable PRC laws and regulations, with a view to implement the repayment of the Relevant Receivables.

As at the end of the Reporting Period, the outstanding balance of the Relevant Receivables due and payable was approximately RMB654 million, and the balance of the impairment provision was RMB261 million.

AMENDMENT TO ARTICLES OF ASSOCIATION

Reference is made to (i) the announcement of the Bank dated 28 February 2018 in relation to, among other things, the resolution on the approval of the amendments to the Articles of Association by Shareholders at the 2018 first extraordinary general meeting of the Bank; and (ii) the announcement of the Bank dated 8 April 2018. The amended Articles of Association was approved by the CBIRC Liaoning Bureau on 23 March 2018 and has become effective on the same date.

Reference is made to (i) the announcement of the Bank dated 22 February 2019 in relation to, among other things, the resolution on the approval of the amendments to the Articles of Association by Shareholders at the 2019 first extraordinary general meeting of the Bank. The amended Articles of Association has to be approved by the CBIRC Liaoning Bureau before coming into effective.

CHANGE OF PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Reference is made to the announcement of the Bank dated 25 May 2018. The principal place of business of the Bank in Hong Kong has been changed to Unit 3209, 32/F, Office Tower Convention Plaza, No.1 Harbour Road, Waichai, Hong Kong, with effect from 25 May 2018.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

At the end of the Reporting Period, the Bank had a total of 5,796,680,200 Shares, comprising 4,255,937,700 Domestic Shares and 1,540,742,500 H Shares.

	31 December 2017		Changes during the Reporting Period			31 December 2018	
	Number	Percentage (%)	Issue of new shares	Others	Sub-total	Number	Percentage (%)
1. Shareholding of Domestic Shares legal persons	4,134,189,139	71.32	nil	nil	nil	4,134,189,139	71.32
Of which:							
1.1 Shareholding of state-owned legal persons	715,743,100	12.35	nil	nil	nil	715,743,100	12.35
1.2 Shareholding of private legal persons	3,418,446,039	58.97	nil	nil	nil	3,418,446,039	58.97
2. Shareholding of Domestic Shares natural persons	121,748,561	2.10	nil	nil	nil	121,748,561	2.10
3. H Shares	1,540,742,500	26.58	nil	nil	nil	1,540,742,500	26.58
Total	5,796,680,200	100.00	nil	nil	nil	5,796,680,200	100.00

ISSUANCE AND LISTING OF SECURITIES

During the Reporting Period, there was no change to the issuance and listing of securities of the Bank.

ISSUANCE OF DEBT SECURITIES

1. Debt Securities Issued

In 2014, the Bank issued ten-year Tier 2 capital bonds, with an aggregate principal amount of RMB2.2 billion and an annual interest rate of 6.18%. Such Tier 2 capital bonds will be due on 30 May 2024.

In December 2015, the Bank issued ten-year Tier 2 capital bonds, with an aggregate principal amount of RMB10 billion and an annual interest rate of 4.57%. Such Tier 2 capital bonds will be due on 8 December 2025. The proceeds from the issuance of the bonds will be used to replenish the Bank's tier two capital and enhance capital adequacy ratio.

On 26 August 2016, the Bank issued financial bonds in the aggregate principal amount of RMB7 billion to members of the inter-bank bond market in China. The bonds comprise two types, which are three-year fixed rate bonds with an interest rate of 3.0% per annum and five-year fixed rate bonds with an interest rate of 3.1% per annum. The proceeds from the issuance of the bonds will be used for loans to small and miniature enterprises in accordance with the applicable laws and the approvals from regulatory authorities as well as the relevant national industrial policies.

On 18 December 2017, the Bank issued tier two capital bonds in the aggregate principal amount of RMB6 billion on the inter-bank bond market in China. The bonds are ten-year fixed-rate bonds, with annual coupon rate of 4.90%, and have a conditional issuer's redemption right at the end of the fifth year. The proceeds from the issuance of the bonds will be used to replenish the Bank's tier two capital in accordance with the applicable laws and the approvals from regulatory authorities.

On 15 August 2018, the Bank has issued its 2018 financial bonds I in the aggregate principal amount of RMB12.0 billion on the inter-bank bond market in China. The bonds are three-year fixed-rate bonds, with annual coupon rate of 4.35%. The proceeds from the issuance of the Bonds will be used to optimise the matching structure of the Bank's medium-and long-term assets and liabilities, increase and stabilise the sources of the Bank's medium and long-term liabilities, and support the Bank's medium and long-term asset business.

On 25 October 2018, the Bank has issued its 2018 financial bonds II in the aggregate principal amount of RMB8.0 billion on the inter-bank bond market in China. The bonds are three-year fixed-rate bonds, with annual coupon rate of 4.10%. The proceeds from the issuance of the Bonds will be used to optimise the matching structure of the Bank's medium-and long-term assets and liabilities, increase and stabilise the sources of the Bank's medium and long-term liabilities, and support the Bank's medium and long-term asset business.

On 26 November 2018, the Bank has issued its 2018 financial bonds III in the aggregate principal amount of RMB6.9 billion on the inter-bank bond market in China. The bonds are three-year fixed-rate bonds, with annual coupon rate of 3.98%. The proceeds from the issuance of the Bonds will be used to optimise the matching structure of the Bank's medium-and long-term assets and liabilities, increase and stabilise the sources of the Bank's medium and long-term liabilities, and support the Bank's medium and long-term asset business.

2. Proposed Issuance of Debt Securities

The Board has resolved, and the Shareholders have approved at the 2018 first extraordinary general meeting of the Bank held on 28 February 2018 that, subject to obtaining necessary governmental and regulatory authorities, the Bank will issue financial bonds in the aggregate principal amount of up to RMB30 billion to members of the interbank bond market in China. The bonds will have a term of maturity of not more than five years (inclusive), with the interest rate to be determined by book building-based centralised allocation or open tendering. The proceeds from the issuance of the Bonds will be used to optimise the matching structure of the Bank's medium and long-term assets and liabilities, increase and stabilise the sources of the Bank's medium and long-term liabilities, and support the Bank's medium and long-term asset business.

The Board has resolved, and the Shareholders have approved at the 2018 second extraordinary general meeting of the Bank held on 17 August 2018 that, subject to necessary governmental and regulatory authorities, the Bank will issue capital bonds with no fixed term in the aggregate principal amount of up to RMB9 billion to members of the interbank bond market in China. The bonds will have no fixed term, with the date of triggering event being the date of maturity; and the interest rate of the bonds will be determined with reference to the market interest rate. The investors will not be entitled to repurchase the bonds, and the Bank is entitled to redeem all or part of the bonds from the fifth year following the date of issuance. The proceeds from the issuance of the bonds, after deducting issuance expenses, will be used to replenish other Tier-one Capital.

The debt securities as mentioned above will not be listed on the Hong Kong Stock Exchange.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

PARTICULARS OF SHAREHOLDINGS

Particulars of Shareholdings of the top ten Shareholders of Domestic Shares on as at 31 December 2018

At the end of the Reporting Period, the Bank had a total of 5,796,680,200 Shares, comprising 4,255,937,700 Domestic Shares and 1,540,742,500 H Shares.

No.	Name of Shareholder	Nature of Shareholder	Total number of Shares held	Shareholding percentage (%)	Number of Shares pledged
1	Evergrande Group (Nan Chang) Co., Ltd.	Private	1,001,680,000	17.28	0
2	Shenyang Hengxin State-owned Assets Management Group Co., Ltd. ("Shenyang Hengxin")	State-owned	479,836,334	8.28	0
3	Liaoning Huibao International Investment Group Co., Ltd. ("Huibao International")	Private	400,000,000	6.90	0
4	Xinhu Zhongbao Co., Ltd. ("Xinhu Zhongbao")	Private	300,000,000	5.18	0
5	Founder Securities Co., Ltd. ("Founder Securities")	Private	300,000,000	5.18	0
6	Shanghai Changxin Group Co., Ltd. (上海昌鑫(集團)有限公司)	Private	200,000,000	3.45	0
7	Luenmei Group Co., Ltd. (聯美集團有限公司)	Private	200,000,000	3.45	0
8	Shenyang Zhongyou Tianbao (Group) Materials and Equipment Co., Ltd. ("Zhongyou Tianbao")	Private	190,000,000	3.28	0
9	Shenyang Dayang Decoration Engineering Co., Ltd. (瀋陽大洋裝飾工程有限公司)	Private	120,000,000	2.07	59,760,000
10	Shenyang Wuai Industrial Co., Ltd. (瀋陽五愛實業有限公司)	State-owned	118,159,093	2.04	0
Total			3,309,675,427	57.10	59,760,000

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 31 December 2018, to the knowledge of the Directors after making reasonable enquiries, the interests of substantial shareholders (as defined under the SFO), other than the Directors, Supervisors or chief executive, in the H Shares and underlying Shares of the Bank under Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of interests	Number of H Shares held	Percentage of the total number of H Shares (%)	Percentage of the total share capital of the Bank (%)
Satinu Resources Group Ltd. ⁽¹⁾	Interest of a controlled corporation	203,676,000 (Long position)	13.22	3.51
Luck Extreme Limited ⁽²⁾	Interest of a controlled corporation	197,180,500 (Long position)	12.80	3.40
Lau Luen Hung ⁽²⁾	Interest of a child under 18 or spouse	197,180,500 (Long position)	12.80	3.40
Chan Hoi Wan ⁽²⁾	Interest of a controlled corporation	197,180,500 (Long position)	12.80	3.40
Enerchina Holdings Limited ⁽³⁾	Interest of a controlled corporation	190,435,000 (Long position)	12.36	3.29
Cheung Chung Kiu ⁽⁴⁾	Interest of a controlled corporation	189,651,500 (Long position)	12.31	3.27
Cheng Yu Tung Family (Holdings II) Limited ⁽⁵⁾	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Cheng Yu Tung Family (Holdings) Limited ⁽⁵⁾	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Chow Tai Fook (Holding) Limited ⁽⁵⁾	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Chow Tai Fook Capital Limited ⁽⁵⁾	Interest of a controlled corporation	179,518,060 (Long position)	11.65	3.10
Chow Tai Fook Nominee Limited ⁽⁵⁾	Beneficial owner ⁽⁶⁾ Interest of a controlled corporation ⁽⁶⁾	179,518,060 (Long position)	11.65	3.10
Shanghai International Trust Co., Ltd. (上海國際信託有限公司)	Interest of a trustee	103,000,000 (Long position)	6.69	1.78
Shun Yi International Trading Co., Ltd. (順意國際貿易有限公司)	Beneficial owner	92,785,000 (Long position)	6.02	1.60
Hwabao Trust Co., Ltd.	Interest of a trustee	90,000,000 (Long position)	5.84	1.55

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

Notes:

- (1) Murtsa Capital Management Limited held 203,676,000 H Shares of the Bank. Murtsa Capital Management Limited was wholly owned by Satinu Investment Group Ltd.; Satinu Investment Group Ltd. was wholly owned by Satinu Resources Group Ltd. By virtue of the SFO, Satinu Investment Group Ltd. and Satinu Resources Group Ltd. are deemed to be interested in the Shares held by Murtsa Capital Management Limited.
- (2) Great Captain Limited held 197,180,500 H Shares of the Bank. Great Captain Limited was wholly owned by Perfect Sign Investments Limited; Perfect Sign Investments Limited was wholly owned by Luck Extreme Limited; Luck Extreme Limited was wholly owned by Chan Hoi Wan. By virtue of the SFO, Perfect Sign Investments Limited, Luck Extreme Limited, Chan Hoi Wan and Lau Luen Hung are deemed to be interested in the Shares held by Great Captain Limited.
- (3) Smart Jump Corporation held 435,000 H Shares of the Bank. Smart Jump Corporation was wholly owned by Win Wind Capital Limited; Win Wind Capital Limited was held as to 88.22% by Enerchina Holdings Limited. By virtue of the SFO, Win Wind Capital Limited and Enerchina Holdings Limited are deemed to be interested in the Shares held by Smart Jump Corporation.

Nu Kenson Limited held 190,000,000 H Shares of the Bank. Nu Kenson Limited was wholly owned by Win Wind Intermediary Financial Services Limited; Win Wind Intermediary Financial Services Limited was wholly owned by Win Wind Capital Limited; Win Wind Capital Limited was held as to 88.22% by Enerchina Holdings Limited. By virtue of the SFO, Win Wind Intermediary Financial Services Limited, Win Wind Capital Limited and Enerchina Holdings Limited are deemed to be interested in the Shares held by Nu Kenson Limited.

- (4) Bookman Properties Limited held 10,000,000 H Shares of the Bank. Bookman Properties Limited was wholly owned by Ferrex Holdings Limited; Ferrex Holdings Limited was wholly owned by Yugang International (B.V.I.) Limited; Yugang International (B.V.I.) Limited was wholly owned by Yugang International Limited; Yugang International Limited was held as to 34.33% by Chongqing Industrial Limited; Chongqing Industrial Limited was wholly owned by Cheung Chung Kiu. By virtue of the SFO, Ferrex Holdings Limited, Yugang International (B.V.I.) Limited, Yugang International Limited, Chongqing Industrial Limited and Cheung Chung Kiu are deemed to be interested in the Shares held by Bookman Properties Limited.

Worthwell Investments Limited held 25,000,000 H Shares of the Bank. Worthwell Investments Limited was wholly owned by Mighty Gain Enterprises Limited; Mighty Gain Enterprises Limited was wholly owned by C C Land Holdings Limited; C C Land Holdings Limited was held as to 41.37% by Thrivetrade Limited; Thrivetrade Limited was wholly owned by Cheung Chung Kiu. By virtue of the SFO, Mighty Gain Enterprises Limited, C C Land Holdings Limited, Thrivetrade Limited and Cheung Chung Kiu are deemed to be interested in the Shares held by Worthwell Investments Limited.

Bondic International Holdings Limited held 154,651,500 H Shares of the Bank. Bondic International Holdings Limited was wholly owned by Cheung Chung Kiu. By virtue of the SFO, Cheung Chung Kiu is deemed to be interested in the Shares held by Bondic International Holdings Limited.

- (5) Acemax Enterprises Limited held 50,776,620 H Shares of the Bank. Acemax Enterprises Limited was wholly owned by Chow Tai Fook Nominee Limited.

Oceanic Fortress Limited held 76,164,940 H Shares of the Bank. Oceanic Fortress Limited was wholly owned by Chow Tai Fook Nominee Limited.

Chow Tai Fook Nominee Limited held 179,518,060 H Shares of the Bank. Chow Tai Fook Nominee Limited was held as to 99.80% by Chow Tai Fook (Holding) Limited; Chow Tai Fook (Holding) Limited was held as to 78.58% by Chow Tai Fook Capital Limited; Chow Tai Fook Capital Limited was held as to 48.98% and 46.65% by Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited, respectively.

By virtue of the SFO, Chow Tai Fook (Holding) Limited, Chow Tai Fook Capital Limited, Cheng Yu Tung Family (Holdings) Limited and Cheng Yu Tung Family (Holdings II) Limited are deemed to be interested in the Shares held by Chow Tai Fook Nominee Limited.

- (6) 50,776,620 H Shares were held in the capacity of beneficial owner, and 126,941,560 H Shares were held in the capacity of a controlled corporation.

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

As at 31 December 2018, to the knowledge of the Directors after making reasonable enquiries, the interests of substantial shareholders (as defined under the SFO), other than the Directors, Supervisors or chief executive, in the Domestic Shares and underlying Shares of the Bank under Divisions 2 and 3 Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Shareholder	Nature of interests	Number of Domestic Shares held	Percentage of the total number of Domestic Shares (%)	Percentage of the total share capital of the Bank (%)
China Evergrande Group ⁽¹⁾	Interest of a controlled corporation	1,001,680,000 (Long position)	23.54	17.28
Shenyang Hengxin	Beneficial owner	479,836,334 ⁽²⁾ (Long position)	11.27	8.28
Shenyang Industrial Investment Development Group Co., Ltd. ⁽³⁾	Interest of a controlled corporation	479,836,334 ⁽²⁾ (Long position)	11.27	8.28
Huibao International	Beneficial owner	400,000,000 (Long position)	9.40	6.90
Beijing Jiutai Group Co., Ltd. ⁽⁴⁾	Interest of a controlled corporation	400,000,000 (Long position)	9.40	6.90
Li Yuguo ⁽⁴⁾	Interest of a controlled corporation	400,000,000 (Long position)	9.40	6.90
Xinhu Zhongbao	Beneficial owner	300,000,000 (Long position)	7.05	5.18
Zhejiang Xinhu Group Co., Ltd. ⁽⁵⁾	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Huang Wei ⁽⁵⁾	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Li Ping ⁽⁵⁾	Interest of a child under 18 or spouse	300,000,000 (Long position)	7.05	5.18
Founder Securities	Beneficial owner	300,000,000 (Long position)	7.05	5.18
Peking University Founder Group Co., Ltd. ⁽⁶⁾	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18
Peking University Asset Management Company Limited ⁽⁶⁾	Interest of a controlled corporation	300,000,000 (Long position)	7.05	5.18

CHANGE IN SHARE CAPITAL AND SHAREHOLDERS (CONTINUED)

Notes:

- (1) China Evergrande Group (a Hong Kong listed company registered in the Cayman Islands; Stock Code: 3333) was interested in 1,001,680,000 Domestic Shares, which were held by its indirect wholly-owned subsidiary, Evergrande Group (Nan Chang) Co., Ltd. (恆大集團(南昌)有限公司).
- (2) According to the register of shareholders of the Bank as at 31 December 2018, Shenyang Hengxin held 479,836,334 Domestic Shares, representing approximately 11.27% of the total number of Domestic Shares and 8.28% of the total share capital of the Bank, respectively.
- (3) Shenyang Hengxin was wholly owned by Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司). By virtue of the SFO, Shenyang Industrial Investment Development Group Co., Ltd. (沈陽產業投資發展集團有限公司) is deemed to be interested in the Shares held by Shenyang Hengxin.
- (4) Huibao International was wholly owned by Beijing Jiutai Group Co., Ltd. (北京九台集團有限公司), which was in turn owned as to 100% by Li Yuguo (李玉國). By virtue of the SFO, Beijing Jiutai Group Co., Ltd. and Li Yuguo are deemed to be interested in the Shares held by Huibao International.
- (5) Based on the information provided by Xinhua Zhongbao, Xinhua Zhongbao was owned as to 32.41%, 16.86%, 5.38% and 2.44% by Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司), Huang Wei (黃偉), Ningbo Jiayuan Industry Development Co., Ltd. (寧波嘉源實業發展有限公司) and Zhejiang Hengxingli Holdings Group Co., Ltd. (浙江恒興力控股集團有限公司), respectively; Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司) owned 99% of Ningbo Jiayuan Industry Development Co., Ltd. (寧波嘉源實業發展有限公司), and Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司) fully owned Zhejiang Hengxingli Holdings Group Co., Ltd. (浙江恒興力控股集團有限公司); Huang Wei (黃偉) owned 57.61% of Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司). By virtue of the SFO, each of Zhejiang Xinhua Group Co., Ltd. (浙江新湖集團股份有限公司), Huang Wei (黃偉) and his spouse are deemed to be interested in the Shares held by Xinhua Zhongbao.
- (6) Based on the information provided by Founder Securities, Founder Securities was owned as to 27.75% by Peking University Founder Group Co., Ltd. (北大方正集團有限公司), which was in turn owned as to 70% by Peking University Asset Management Company Limited (北大資產經營有限公司).

Save as disclosed above, the Bank is not aware of any other person (other than the Directors, Supervisors and the chief executive (as defined under the Listing Rules) of the Bank) having any interests or short positions in the shares or underlying shares of the Bank as at 31 December 2018 as recorded in the register required to be kept by the Bank pursuant to Section 336 of the SFO.

SHAREHOLDERS HOLDING 5% OR MORE OF THE TOTAL SHARE CAPITAL

As at the end of the Reporting Period, Evergrande Group (Nan Chang) Co., Ltd., Shenyang Hengxin, Huibao International, Xinhua Zhongbao and Founder Securities held 1,001,680,000 Domestic Shares, 479,836,334 Domestic Shares, 400,000,000 Domestic Shares, 300,000,000 Domestic Shares and 300,000,000 Domestic Shares of the Bank, respectively, representing 17.28%, 8.28%, 6.90%, 5.18% and 5.18% of the Bank's total share capital, respectively.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

BASIC INFORMATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at the Latest Practicable Date, the Directors, Supervisors and senior management of the Bank comprised:

Name	Age	Position
Mr. ZHANG Qiyang (張啟陽)	54	Executive Director, Chairman of the Board
Mr. ZHANG Qiang (張強)	55	Executive Director, President
Mr. WANG Yigong (王亦工)	52	Executive Director, Vice President and chief risk officer
Mr. WU Gang (吳剛)	48	Executive Director, Vice President
Mr. QIU Huofa (邱火發)	58	Non-executive Director, Vice Chairman of the Board
Mr. LIU Yanxue (劉彥學)	53	Non-executive Director
Mr. LI Jianwei (李建偉)	58	Non-executive Director
Mr. LI Yuguo (李玉國)	65	Non-executive Director
Mr. YUEN Wing Shing (袁永誠)	72	Non-executive Director
Mr. ZHAO Weiqing (趙偉卿)	59	Non-executive Director
Mr. NI Guoju (倪國巨)	64	Independent Non-executive Director
Mr. KEUNG Chak (姜策)	58	Independent Non-executive Director
Mr. TAI Kwok Leung, Alexander (戴國良)	61	Independent Non-executive Director
Mr. XING Tiancai (邢天才)	57	Independent Non-executive Director
Mr. LI Jinyi (李進一)	55	Independent Non-executive Director
Mr. YANG Liya (楊利亞)	55	Employee Representative Supervisor, Chairman of the Board of Supervisors
Mr. SHI Yang (石陽)	54	Employee Representative Supervisor
Mr. WANG Lijun (王立軍)	38	Employee Representative Supervisor
Mr. PAN Wenge (潘文戈)	51	Shareholder Representative Supervisor
Mr. LIU Huidi (劉惠弟)	58	Shareholder Representative Supervisor
Mr. YU Haobo (于浩波)	54	Shareholder Representative Supervisor
Mr. BA Junyu (巴俊宇)	63	External Supervisor
Mr. SUN Hang (孫航)	52	External Supervisor
Mr. DAI Qiang (戴強)	53	External Supervisor
Mr. SUN Yongsheng (孫永生)	58	Vice President
Mr. ZHANG Xuewen (張學文) ^{Note 1}	51	Vice President
Mr. LI Xin (李欣) ^{Note 1}	49	Vice President
Mr. SHEN Guoyong (沈國勇) ^{Note 1}	48	Vice President
Mr. ZHOU Zhi (周峙)	50	Secretary of the Board
Mr. ZHANG Yi (張翼)	48	Chief information officer
Mr. LIU Zhiyan (劉志岩)	59	Chief financial officer

Note 1: The election of Mr. ZHANG Xuewen, Mr. LI Xin and Mr. SHEN Guoyong as the vice president of the Bank is subject to the ratification of their eligibility by the CBIRC.

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Changes in Directors

The term of office of the fifth session of the Board has expired. Mr. WANG Chunsheng and Mr. SUN Yongsheng did not offer themselves for re-election as executive Directors; Mr. LIU Xinfu did not offer himself for re-election as non-executive Director; and Mr. YU Yongshun, Mr. LAU Chi Pang, Mr. BA Junyu, Mr. SUN Hang and Mr. DING Jiming did not offer themselves for re-election as independent non-executive Directors.

At the 2018 first extraordinary general meeting of the Bank held on 28 February 2018, Shareholders have approved the composition of the sixth session of the Board. Mr. ZHANG Qiyang, Mr. ZHANG Qiang, Mr. WANG Yigong and Mr. WU Gang have been elected as the executive Directors; Mr. QIU Huofa, Mr. LIU Yanxue, Mr. LI Jianwei, Mr. LI Yuguo, Mr. YUEN Wing Shing and Mr. ZHAO Weiqing have been elected as the non-executive Directors; and Mr. NI Guoju, Mr. KEUNG Chak, Mr. TAI Kwok Leung, Alexander, Mr. XING Tiancai and Mr. LI Jinyi have been elected as the independent non-executive Directors. The Board has further resolved that Mr. ZHANG Qiyang and Mr. QIU Huofa have been elected as the chairman and vice chairman of the Board, respectively.

The committees of the sixth session of the Board have also been elected. The audit committee will consist of five Directors, including Mr. TAI Kwok Leung, Alexander as the chairman, Mr. LIU Yanxue as the vice chairman, and Mr. LI Jianwei, Mr. KEUNG Chak and Mr. LI Jinyi as members. The nomination and remuneration committee will consist of five Directors, including Mr. XING Tiancai as the chairman, Mr. ZHANG Qiyang as the vice chairman, and Mr. QIU Huofa, Mr. KEUNG Chak and Mr. LI Jinyi as members. The strategic development committee will consist of five Directors, including Mr. ZHANG Qiyang as the chairman, Mr. QIU Huofa as the vice chairman, and Mr. ZHANG Qiang, Mr. ZHAO Weiqing and Mr. XING Tiancai as members. The related party transactions control committee will consist of five Directors, including Mr. NI Guoju as the chairman, Mr. WANG Yigong as the vice chairman, and Mr. YUEN Wing Shing, Mr. TAI Kwok Leung, Alexander and Mr. XING Tiancai as members. The risk control and consumers' rights protection committee will consist of five Directors, including Mr. LI Jinyi as the chairman, Mr. ZHANG Qiang as the vice chairman, and Mr. WU Gang, Mr. LI Yuguo and Mr. NI Guoju as members.

The CBIRC Liaoning Bureau has ratified the eligibility of Mr. LIU Yanxue, Mr. NI Guoju, Mr. LI Jinyi and Mr. XING Tiancai to serve as directors of the Bank, and their term of office commenced from 24 April 2018. The CBIRC Liaoning Bureau has ratified the eligibility of Mr. QIU Huofa to serve as the vice chairman of the Board the Bank, and his term of office commenced from 3 May 2018. The CBIRC Liaoning Bureau his ratified the eligibility of Mr. ZHANG Qiang to serve as a director of the Bank, and his term of office commenced from 14 May 2018; The CBIRC Liaoning Bureau has ratified the eligibility of Mr. YUEN Wing Shing, Mr. KEUNG Chak and Mr. TAI Kwok Leung, Alexander to serve as directors of the Bank, and their term of office commenced from 7 August 2018.

2. Changes in Supervisors

The term of office of the fifth session of the Supervisory Board has expired. Mr. CHEN Zhaogui and Ms. SUN Yi did not offer themselves for re-election as Shareholder representative Supervisors; and Mr. HUANG Liangkuai, Mr. ZHOU Zheren and Mr. WEN Zhaoye did not offer themselves for re-election as External Supervisors; and Mr. YANG Lin and Mr. HAN Xuefeng have ceased to act as Employee Supervisors.

Shareholders have approved at the 2018 first extraordinary general meeting of the Bank held on 28 February 2018 the Shareholder representative Supervisors and the External Supervisors of the sixth session of the Board of Supervisors, with Mr. PAN Wenge, Mr. LIU Huidi and Mr. YU Haobo as the Shareholder representative Supervisors, and Mr. BA Junyu, Mr. SUN Hang and Mr. DAI Qiang as the External supervisors.

On 15 August 2018, the employee representatives' meeting of the Bank elected Mr. YANG Liya, Mr. SHI Yang and Mr. WANG Lijun as Employee Supervisors for the sixth session of the Board of Supervisors.

On 23 August 2018, the Board of Supervisors convened a meeting and elected Mr. Yang Liya as the chairman for the sixth session of the Board of Supervisors.

The committees of the sixth session of the Board of Supervisors have also been elected. The supervision committee will consist of five Supervisors, including Mr. BA Junyu as the chairman, Mr. DAI Qiang as the vice chairman, and Mr. YANG Liya, Mr. SHI Yang and Mr. PAN Wenge as members. The nomination committee will consist of five Supervisors, including Mr. SUN Hang as the chairman, Mr. YANG Liya as the vice chairman, and Mr. WANG Lijun, Mr. LIU Huidi and Mr. YU Haobo as members.

3. Changes in Senior Management

The Board has resolved that Mr. ZHANG Qiang has been elected as the president of the Bank. The CBIRC Liaoning Bureau has ratified the eligibility of Mr. ZHANG Qiang to serve as the president of the Bank, and his term of office commenced from 26 April 2018.

The Board has resolved that Mr. ZHANG Xuewen, Mr. LI Xin and Mr. SHEN Guoyong have been elected as the president of the Bank on 28 January 2019. The term of office of Mr. Zhang, Mr. Li and Mr. Shen will commence upon the CBIRC Liaoning Bureau ratifying their eligibility.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Biographies of Directors

Executive Directors

Mr. ZHANG Qiyang (張啟陽), aged 54, has been serving as an executive Director and the chairman of the Board of the Bank since May 2017. From December 2013 to February 2017, Mr. Zhang was the Party committee secretary and the president of the Shenyang branch of the People's Bank of China (the "PBOC") and the chief of the Liaoning branch of the State Administration of Foreign Exchange (the "SAFE"). From June 2010 to December 2013, he served as the Party committee secretary and the president of the Changchun central sub-branch of the PBOC and the chief of the Jilin branch of the SAFE. From January 1999 to June 2010, he served successively as the Party committee member, Party committee secretary, vice-president and president of the Dalian central sub-branch of the PBOC. From September 2003 to June 2010, he also served as the chief of the Dalian branch of the SAFE. From April 1994 to January 1999, he successively served as the deputy office director, office director, Party leadership group member and vice president of the Dalian branch of the PBOC. From November 1996 to January 1999, he also served as the deputy chief of the Dalian branch of the SAFE. From April 1991 to April 1992, he served as the director assistant of Dalian Credit Rating Committee Assessment Firm (大連市信譽評級委員會評信事務所). From April 1992 to April 1994, he served as the deputy director of Dalian Credit Rating Committee Firm (大連市信譽評級委員會事務所). From August 1988 to April 1991, he was employed by the credit rating firm under the Dalian branch of the PBOC.

Mr. Zhang received a bachelor degree from Dongbei University of Finance and Economics in July 1986. Later in January 2007, he completed a postgraduate course majoring in finance and received a doctoral degree of economics from Dongbei University of Finance and Economics. He obtained the senior economist title in October 2001. He served as a deputy to the fourteenth People's Congress of Dalian from July 2007 to October 2010 and was elected as a deputy to the twelfth National People's Congress in 2013.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Mr. ZHANG Qiang (張強), aged 55, served as the president and executive Director of the Bank since February 2018. Mr. Zhang served as the vice president and member of party committee of the head office of CITIC Bank from February 2010 to January 2018. From April 2006 to February 2010, he served as the assistant to president and member of party committee of the Head Office of CITIC Bank. From March 2000 to April 2006, he served as the executive deputy general manager and general manager (secretary of the party committee) of the Business Department of the Head Office of CITIC Bank (Beijing Branch). From March 1998 to March 2000, he served as the vice president of Qingdao Branch and president (secretary of the party committee) of Jinan Branch of CITIC Bank. From June 1990 to March 1998, he served as the section chief, deputy general manager and general manager of the Credit Department of the Head Office of CITIC Bank. From August 1987 to June 1990, Mr. Zhang served as the manager of fund credit department of China Huacheng Finance Company. From August 1986 to August 1987, Mr. Zhang joined the central government lecturers group to go to western Hubei to support education. From July 1983 to August 1986, Mr. Zhang served as a cadre of the planning department of the State Ministry of Textile Industry. From April 2014 to January 2018, Mr. Zhang also served as the chairman of CNCB (Hong Kong) Investment Limited, the chairman of CNCB (Hong Kong) Capital Limited and a director of China CITIC Bank International concurrently.

Mr. Zhang graduated from Zhongnan University of Finance and Economics with a bachelor's degree in July 1983 and obtained a master's degree in finance from Liaoning University in June 1999. He obtained the senior economist title in September 1996.

Mr. WANG Yigong (王亦工), aged 52, has been serving as an executive Director of the Bank since August 2013 and vice president and chief risk officer of the Bank since January 2013. Mr. Wang held the position of general manager of the credit and loan management department of the Bank from January 2006 to January 2013. He then served as president of our Zhenghao Sub-branch from February 2002 to January 2006, during which he also worked as president of our Liaoshen Sub-branch from February 2002 to February 2003. From January 2001 to February 2002, he worked as (managing) vice president of our Liaoshen Sub-branch. He served as deputy general manager of the asset security department of the Bank from June 1998 to January 2001. He successively worked as a cashier, a credit clerk and deputy head of credit office at the Tiexi Office of Industrial and Commercial Bank of China in Shenyang from December 1984 to June 1998.

Mr. Wang graduated from The Open University of China (formerly known as China Central Radio and TV University) (Beijing, PRC) in November 2002, majoring in finance. He has been an economist as accredited by the PRC Ministry of Personnel since June 1995. He has obtained the "Shenyang May 1 Labor Medal" by Shenyang General Labor Union in April 2015.

Mr. WU Gang (吳剛), aged 48, has been serving as an executive Director of the Bank since May 2014, and the vice president of the Bank in January 2013. He also served as the president of the Beijing branch for the Bank from August 2009 to August 2016. Mr. Wu worked as deputy director of the preparatory office of Shenyang business operation department of the Bank from January 2009 to August 2009. From January 2007 to January 2009, he successively held the positions of president of the Yaming Sub-branch and president of the Shenhe Sub-branch of the Bank. From February 2003 to January 2007, he successively served as (managing) vice president and president of the Taishan Sub-branch of the Bank. From February 2001 to February 2003, he successively worked as assistant to general manager and deputy general manager of the asset security department of the Bank. From May 1998 to February 2001, he worked as assistant to president of the Nanhu Sub-branch of the Bank. From June 1989 to May 1998, Mr. Wu served as a staff member at the Shenhe City Credit Cooperative of Shenyang Cooperative Bank and the Nanhu Sub-branch of the Bank (including its predecessor).

Mr. Wu graduated from the Open University of China (previously known as Central Radio and TV University) (Beijing, the PRC) in June 2003, majoring in finance, and obtained the Master of Business Administration of Senior Management from Renmin University of China in June 2015. He has been an economist as accredited by the Personnel Office of Liaoning Province since November 1997.

Non-executive Directors

Mr. QIU Huofa (邱火發), aged 58, has been serving as a non-executive Director of the Bank since May 2017 and the vice chairman of the Board of the Bank since February 2018. Mr. Qiu has also been the executive vice president of China Evergrande Group since June 2016. From April 2001 to June 2016, he held various posts in different offices of China Everbright Bank. From September 2010 to June 2016, he successively served as the president assistant, vice president and Party committee member of its head office as well as the president and Party committee secretary of its Beijing branch. From August 2007 to September 2010, he served as the president and Party committee secretary of its Beijing branch. From November 2006 to August 2007, he served as the head of the business department and Party committee secretary of its head office. From April 2001 to November 2006, he served as the president and Party committee secretary of its Guangzhou branch. From December 1987 to April 2001, he held various posts in different offices of Bank of Communications. From March 2000 to April 2001, he served as the president and Party leadership group secretary of its Changsha branch. From December 1987 to March 2000, he successively served as the section chief of the credit department, head of a local office and deputy director of its Wuhan branch; president of its Wuchang sub-branch; and the vice president and Party leadership group member of its Wuhan branch.

Mr. Qiu graduated from Shijiazhuang Army Academy majoring in infantry commanding in September 1981 and received a master degree majoring in finance from Zhongnan University of Economics and Law in June 2000. He obtained the senior economist title in December 1998. He was awarded the “National May Day Medal for Finance Industry” and “National May Day Medal” in 2010 and 2011, respectively. In addition, he previously served as the deputy to the ninth National Party Congress from Guangdong and a deputy to the fifteenth People’s Congress of Xicheng District, Beijing.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Mr. LIU Yanxue (劉彥學), aged 53, elected as a non-executive Director of the Bank in February 2018, has been serving as the Party committee secretary of the Bank since August 2016. From February 2013 to October 2016, he served as the Party committee deputy secretary, Party committee secretary and director of the State-owned Assets Supervision and Administration Commission of Shenyang Municipal Government. From May 2011 to February 2013, he served as the deputy secretary-general of Shenyang Municipal Government. From May 2008 to May 2011, he was the deputy director of the Management Committee of Shenyang National High Technology Industry Base for Civil Aviation Industry (瀋陽民用航空產業國家高技術產業基地管委會). From May 2003 to May 2008, he served as the deputy director of Shenyang Economic and Trade Committee (瀋陽市經濟貿易委員會). From April 2001 to August 2004, he was the deputy director and director, successively, of Shenyang Automobile Industry Development Office (瀋陽市汽車產業發展辦公室). From May 1995 to April 2001, Mr. Liu served successively as the deputy chief clerk and deputy director in Shenyang Economic and Trade Commission and the deputy director and director of Central Direct Enterprise Office. From November 1992 to May 1995, Mr. Liu worked in Shenyang Economic Commission.

Mr. Liu graduated from Baotou Iron and Steel Institute (包頭鋼鐵學院) majoring in metallurgical and mechanical in August 1989 and completed an investment management graduate programme organised by Chinese Academy of Social Sciences (中國社會科學院) in November 1998. He obtained a doctoral degree in materials processing engineering from Shenyang University of Technology (瀋陽工業大學) in April 2008.

Mr. LI Jianwei (李建偉), aged 58, has been serving as a non-executive Director of the Bank since June 2006. He has been the chairman of the board and general manager of Shenyang Hengxin since July 2004, and deputy general manager of Shenyang Industrial Investment Development Group Co., Ltd. (瀋陽產業投資發展集團有限公司) since July 2013. Prior to that, he successively worked as chief of the asset revenues (property rights) division at Shenyang Finance Bureau from December 2001 to July 2004, deputy chief of the administrative affairs and resources division and chief of capital operation division at Shenyang State-owned Assets Supervision and Administration Commission from March 1994 to December 2001, and principal staff and deputy chief of the accounting division at Shenyang Finance Bureau from March 1985 to March 1994.

Mr. Li graduated from Liaoning University (Liaoning, PRC) in December 1991, majoring in industrial enterprise management, and received a master's degree in philosophy of Marxism from Liaoning University (Liaoning, PRC) in June 2000. He has been a non-practising member of Liaoning Public Certified Accountants Association since December 2009.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Mr. LI Yuguo (李玉國), aged 65, has been serving as a non-executive Director of the Bank since July 2013 and the vice chairman of the Board from June 2014 to February 2018. He has been the chairman of Huibao International since June 2013 and the chairman of Beijing Jiutai Group Co., Ltd. (北京九台集團有限公司) since May 1993. Prior to that, he successively worked at the planning bureau of the China Association for Science and Technology (中國科學技術協會) as principal staff, deputy chief and chief of the accounting division from August 1983 to October 1992. Mr. Li has been the board chairman of Asia Resources Holdings Limited (listed on the Hong Kong Stock Exchange; stock code: 899) since August 2017. Mr. Li has been the executive director of Future Bright Mining Holdings Limited (listed on the Hong Kong Stock Exchange; stock code: 2212) since 19 September 2018.

Mr. Li graduated from Jiangxi University of Finance and Economics (formerly known as Jiangxi Institute of Finance and Economics (江西財經學院)) (Jiangxi, PRC) in July 1983, majoring in industrial accounting.

Mr. YUEN Wing Shing (袁永誠), aged 72, elected as a non-executive Director of the Bank in February 2018, has been a Director of The Cross-Harbour (Holdings) Limited (listed on the Hong Kong Stock Exchange; stock code: 32) since March 2001 and also serves as a member of the executive committee of the said company as well as directors of several affiliated companies of the said company. Previously, he held senior management positions with a major bank in Hong Kong for over 20 years. He is also a director and a managing director of Yugang International Limited (listed on the Hong Kong Stock Exchange; stock code: 613), an executive director of Y. T. Realty Group Limited (listed on the Hong Kong Stock Exchange; stock code: 75), and directors of Yugang International (BVI) Limited and Funrise Limited.

Mr. Yuen obtained a diploma in management studies from The Hong Kong Polytechnic University in 1986.

Mr. ZHAO Weiqing (趙偉卿), aged 59, has been appointed as a non-executive Director of the Bank since May 2014. He also served as our shareholders representative Supervisor from March 2008 to May 2014. He has been the president and a director of Xinhua Zhongbao since October 2009 and the vice chairman of the board of Xinhua Zhongbao from October 2009 to November 2015 and was the vice president of Xinhua Zhongbao from May 2007 to October 2009. He has been the general manager of Shenyang Xinhua Real Estate Development Co., Ltd. (瀋陽新湖房地產開發有限公司) since September 2002 and served as the executive deputy manager of Zhejiang Xinhua Real Estate Group Co., Ltd. (浙江新湖房地產集團有限公司) from October 1998 to September 2002. He worked as a teacher and director of the training department at Zhejiang Provincial Government School of the Chinese Communist Party (中共浙江省省級機關黨校) from July 1986 to October 1998.

Mr. Zhao graduated from Hangzhou Normal University (formerly known as Hangzhou Normal College (杭州師範學院)) (Zhejiang, PRC) in August 1980, majoring in physics, and graduated from the Party School of the Zhejiang Committee of the Chinese Communist Party (中共浙江省委黨校) (Zhejiang, PRC), majoring in political economics in July 1986. He has been accredited as a lecturer by the Teachers' Qualification Accreditation Committee of Chinese Communist Party Zhejiang Provincial Committee (中共浙江省委教師職務評審委員會) since March 1991.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Independent Non-executive Directors

Mr. NI Guoju (倪國巨), aged 64, was elected as an independent non-executive Director of the Bank in February 2018. Mr. Ni served as the Party committee secretary of the Management School of Wuhan University of Science and Technology from March 2009 to April 2014. From January 2007 to March 2009, Mr. Ni served as the Party committee secretary of the Continuing Education School of Wuhan University of Science and Technology. From October 2005 to January 2007, Mr. Ni served as the director of the Department of Infrastructure of Wuhan University of Science and Technology. From December 1997 to October 2005, he served as the general manager of the Technology and Development Company of Wuhan University of Science and Technology. From July 1978 to December 1997, he successively served as the assistant lecturer and lecturer of the Metallurgy School, deputy secretary of the Party branch, the Party committee secretary and deputy director of the Department of Moral Education of Wuhan Iron and Steel Institute (武漢鋼鐵學院) (renamed as Wuhan University of Science and Technology in 1995).

Mr. Ni completed a studies in metallic materials and heat treatment in Wuhan Iron and Steel Institute in July 1978.

Mr. KEUNG Chak (姜策), aged 58, elected as an independent non-executive Director of the Bank in February 2018, has been serving as the managing director of SZCE Ronghe Investment Co., Ltd. (深圳市建融合投資有限公司) since January 2016. From October 2002 to December 2015, he served as an executive director of Hong Kong Sun Asset Management Limited (香港陽光資本管理有限公司). From December 1998 to September 2002, he served as an executive director of Hong Kong Concord Capital Securities Limited (香港協和證券有限公司). From July 1983 to December 1998, he served positions at the Finance Department and Investment Department of China Everbright Industrial Corporation (中國光大實業總公司).

Mr. Keung obtained a bachelor's degree in applied mathematical statistics specialization awarded by Shanghai University of Finance and Economics (上海財經大學) in July 1983.

Mr. TAI Kwok Leung, Alexander (戴國良), aged 61, elected as an independent non-executive Director of the Bank in February 2018, is a partner of VMS Securities Limited. Mr. Tai previously was a managing director and the head of Corporate Finance Department of Investec Capital Asia Limited. Mr. Tai is licensed under the Securities and Futures Ordinance to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities. Mr. Tai is an independent non-executive director of Anhui Conch Cement Company Limited (listed on the Hong Kong Stock Exchange; stock code: 914), Luk Fook Holdings (International) Limited (listed on the Hong Kong Stock Exchange; stock code: 590), AAG Energy Holdings Limited (listed on the Hong Kong Stock Exchange; stock code: 2686), G & M Holdings Limited (listed on the Hong Kong Stock Exchange; stock code: 6038) and Jiayuan International Group Limited (listed on the Hong Kong Stock Exchange; stock code: 2768), which are all listed on the Stock Exchange of Hong Kong.

Mr. Tai graduated from the Victoria University of Wellington in New Zealand and obtained a bachelor degree in Commerce and Administration in 1982. He is an associate member of the Hong Kong Institute of Certified Public Accountants and CPA Australia.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Mr. XING Tiancai (邢天才), aged 57, elected as an independent non-executive Director of the Bank in February 2018. Since 2017, he has been serving as an independent Director of Datong Securities Company Limited (大通證券有限公司). He has been serving as the dean of the Graduate School of Dongbei University of Finance and Economics (東北財經大學) since May 2017. From December 2016 to May 2017, he served as the head of Development Planning and Disciplinary Construction Department of Dongbei University of Finance and Economics. From December 2006 to December 2016, he served as the dean of the School of Finance of Dongbei University of Finance and Economics. From September 1999 to December 2006, he served as the dean of the Vocational Technical School of Dongbei University of Finance and Economics. From August 1986 to August 1999, he served as deputy director of the research section under the School of Investments, deputy director of the Graduate Department, head of Higher Education Research successively at Dongbei University of Finance and Economics.

Mr. Xing obtained a bachelor's degree in economics from Liaoning Institute of Finance and Economics (遼寧財經學院) in July 1984 and a master's degree in Economics and a doctoral degree in economics from Dongbei University of Finance and Economics in September 1987 and April 2003, respectively. He was elected as a professor in December 2000. He was awarded the title of "Excellent Expert" by the Dalian Municipal People's Government in 2013 and was granted the "May 1" Labour Medal of Liaoning Province in 2015 and was granted the "Leader of the National Special Support Program for High-level Talent (Leader of the National Ten-thousand Talents Program)" from the Organisation Department of the Communist Party of China and the Ministry of Human Resources and Social Security in 2016.

Mr. LI Jinyi (李進一), aged 55, elected as an independent non-executive Director of the Bank in February 2018. He has been a senior partner and a part-time lawyer at Guangdong Shenglun Law Firm since 2018 and has been serving as a lecturer at the School of Economics and subsequently an associate professor at the Management School of Jinan University (暨南大學) since April 1991. From 2002 to 2018, he was a part-time lawyer at Guangdong Xindesheng Law Firm. From 1996 to 2002, he was a part-time lawyer at Guangdong Jinan Law Firm. He is currently an independent director of Guangzhou Restaurant Group Co., Ltd. (listed on the Shanghai Stock Exchange; stock code: 603043), Guangdong Aofei Data Technology Co., Ltd. (listed on the Shenzhen Stock Exchange; stock code: 300378), Guangzhou Haige Communications Group Incorporated Company (listed on the Shenzhen Stock Exchange; stock code: 002465), Sotech Smarter Equipment Co., Ltd. (listed on the Shenzhen Stock Exchange; stock code: 300173) and Comefly Outdoor Co., Ltd. (listed on the Shanghai Stock Exchange; stock code: 603908). From June 2006 to June 2012, he served as an independent director of GRG Banking Equipment Co., Ltd. (listed on the Shenzhen Stock Exchange; stock code: 002152).

Mr. Li obtained his bachelor degree and master degree in law from Southwest University of Political Science & Law (西南政法大學) in July 1985 and January 1991, respectively. He was elected as an associate professor in December 1998.

2. Biographies of Supervisors

Employee Representative Supervisors

Mr. YANG Liya (楊利亞), aged 55, has been an Employee Representative Supervisor and Chief Supervisor of the Bank since August 2018. From June 2017 to July 2018, Mr. Yang served as the chief risk officer of Evergrande Financial Group and the general manager of risk management center of China Evergrande Group (listed on The Stock Exchange of Hong Kong Limited, stock code: 3333). From July 2014 to December 2016, Mr. Yang served as a special loan approval officer of China Construction Bank Corporation (head office) ("Construction Bank") (listed on the Hong Kong Stock Exchange, stock code: 939; listed on the Shanghai Stock Exchange, stock code: 601939). From June 2006 to July 2014, Mr. Yang served as the risk director of Shanxi Branch of Construction Bank. From April 2002 to June 2006, Mr. Yang served as the special loan approval officer of Construction Bank (head office). From April 1991 to April 2002, Mr. Yang served successively as staff member, senior staff member, principal staff member, special loan approval officer and vice president of Henan Branch, Pingdingshan Branch and Zhengzhou Jinshui sub-branch of Construction Bank. From August 1984 to August 1988, Mr. Yang served successively as a researcher of China Academy of Engineering Physics and Henan Provincial Government Development Research Center, respectively.

Mr. Yang graduated as a postgraduate in technical economics from Tsinghua University in March 1991. In December 1998, Mr. Yang was accredited as a senior economist.

Mr. SHI Yang (石陽), aged 54, has been an Employee Representative Supervisor of the Bank since June 2014. He has also served as the president of the Bank's Shenyang Branch since January 2015 and secretary to the Party committee of the Bank's Shenyang Branch since July 2015. Mr. Shi joined the Huigong Credit Cooperative, one of the Bank's predecessors, in March 1987 and has held a number of positions in the Bank (including its predecessors) since then. From March 1987 to April 1992, he successively worked as a credit clerk of the Huigong Credit Cooperative (惠工信用社) and a credit clerk at the credit and loan division of the Bank's head office. From April 1992 to February 2000, he served as the vice president of the Bank's Tiexi sub-branch. From February 2000 to January 2003, he held the positions of assistant to the president and vice president of the Bank's Yuanlu sub-branch. From January 2003 to July 2008, he served as the vice president of the Bank's Yuhong sub-branch. From July 2008 to January 2015, he successively worked as the president of Yuhong sub-branch, the vice president of Shenyang branch and the president of Dandong branch of the Bank. From January 2014 to September 2014, he served concurrently as the director of the preparatory office of Dandong branch, and from January 2015 to July 2015 acted as the deputy secretary to the Party committee of Shenyang Branch of the Bank.

Mr. Shi graduated from the Party School of the Liaoning Committee of the Chinese Communist Party (中共遼寧省委黨校) in March 1997, majoring in economic management, and obtained a diploma of post-graduation studies in political economics from Northeast Normal University in December 2000. He has been a senior economist as accredited by the Department of Human Resources and Social Security of Liaoning Province since September 2009.

Mr. WANG Lijun (王立軍), aged 38, has been an Employee Representative Supervisor of the Bank since August 2018. Since September 2009, Mr. Wang has worked at the Planning and Accounting Management Department of the Bank (head office), responsible for accounting management. From May 2008 to August 2009, Mr. Wang worked at the Planning and Finance Department of the Bank (head office), responsible for the bill business. From July 2007 to March 2008, Mr. Wang worked at Shenhe sub-branch of the Bank, responsible for the comprehensive counter business.

Mr. Wang obtained a master's degree in statistics from Liaoning University in June 2007. In September 2009, Mr. Wang was accredited as an intermediate statistician.

Shareholder Representative Supervisors

Mr. PAN Wenge (潘文戈), aged 51, a Shareholder representative Supervisor since May 2014, has been the chief financial officer of Luenmei Holding Co., Ltd. (聯美控股股份有限公司, listed on the Shanghai Stock Exchange; stock code: 600167) since November 2009. Prior to that, he held the position of deputy chief financial officer at Luenmei (China) Investment Co., Ltd. (聯美(中國)投資有限公司) from May 2007 to November 2009. From May 2000 to May 2007, he worked at Huaxia Bank, where he successively served as deputy general manager of the financing center of Shenyang branch, general manager of the business department of Shenyang branch, president of Shenyang Beizhan sub-branch and Shenyang Zhongshan Square Sub-branch.

Mr. Pan graduated from Dongbei University of Finance and Economics (formerly known as Liaoning Institute of Finance and Economics (遼寧財經學院)) (Liaoning, PRC) in July 1988, majoring in finance and accounting, and a master's degree in applied psychology from Liaoning Normal University (Liaoning, PRC) in July 2002. He has been an accountant as accredited by the Personnel Office of Liaoning Province since October 1994.

Mr. LIU Huidi (劉惠弟), aged 58, a Shareholder representative Supervisor since February 2018, has been serving as the president of Shanghai Changxin (Group) Co., Ltd. (上海昌鑫(集團)有限公司), an executive director of Shenyang Changxin Property Investment Co., Ltd. (瀋陽昌鑫置業投資有限公司) and director of Shanghai Baoshan Village Bank (上海寶山富民村鎮銀行) since October 1997, August 2006 and September 2011, respectively. From January 2004 to May 2015, he concurrently served as the general manager of Shanghai Juying Property Development Co., Ltd. (上海聚英房地產開發有限公司). From March 1981 to October 1997, he served as a section officer and section chief of the Department of Finance Shanghai No. 5 Steel (Group) Co., Ltd. of Baosteel Group (寶鋼集團上海五鋼(集團)有限公司).

Mr. Liu graduated from the finance and accounting studies awarded by Shanghai College of Metallurgy Industry (上海市冶金工業學校) in March 1981 and completed the industrial accounting studies of Shanghai Television University (上海電視大學) in July 1986. He is a qualified accountant and the qualification was conferred by Shanghai Metallurgical Industry Bureau (上海市冶金工業局) in December 1991.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Mr. YU Haobo (于浩波), aged 54, a Shareholder representative Supervisor since February 2018, has been serving as the chairman of the board of Shenyang Dayang Decoration Engineering Co., Ltd. (瀋陽大洋裝飾工程有限公司) and general manager of Liaoning Xiangge Weilan Property Development Co., Ltd. (遼寧香格蔚藍房地產開發有限公司) since December 1995. From March 2008 to March 2014, he was a Shareholder representative Supervisor of the Bank. From December 1995 to August 2000, he served as the general manager of Shenyang Dayang Business and Industrial Co., Ltd. (瀋陽大洋商務實業有限公司).

Mr. Yu completed a master's degree in systems engineering awarded by Tianjin University in December 1993. He is a qualified senior engineer and the qualification was conferred by the Personnel Department of Liaoning Province (遼寧省人事廳) in December 2003.

External Supervisors

Mr. BA Junyu (巴俊宇), aged 63, has been elected as an External Supervisor of the Bank in February 2018. Mr. Ba has been a professor at Shenyang Ligong University (瀋陽理工大學) since September 2001, and served as principal, professor and researcher of the social economy research institute of Shenyang Ligong University from September 2001 to May 2009. He serves as a professor at the ideological and political theory teaching and research department of Shenyang Ligong University since May 2009 and served as an independent non-executive Director of the Bank from June 2010 to February 2018. Prior to that, he served as an associate professor and the head of the economic research institute at Shenyang University from April 1996 to August 2003. From August 1985 to April 1996, he served as a vice dean, deputy principal and associate professor of the market economy research institute at Shenyang Institute of Finance and Economics. He used to work at the teaching and research office at Shenyang Accounting School (瀋陽市財會學校) as deputy director, director and lecturer from August 1982 to August 1985.

Mr. Ba graduated from Dongbei University of Finance and Economics (formerly known as Liaoning Institute of Finance and Economics (遼寧財經學院)) (Liaoning, PRC) in July 1982, majoring in commercial enterprise management. He has been a researcher as accredited by the Personnel Office of Liaoning Province since August 2008.

Mr. SUN Hang (孫航), aged 52, has been elected as an External Supervisor in February 2018. He has been the director of the Enterprise Management Research Centre of Liaoning Academy of Social Sciences since March 2016. He served as an independent non-executive Director of the Bank from May 2014 to February 2018. Prior to that, he served as the principal of the Human Resources Research Institute of Liaoning Academy of Social Sciences from April 2007 to March 2016, the general manager at Shenyang Yuhuang Health Products Co., Ltd. (瀋陽玉皇保健品有限公司) from March 2002 to April 2007, worked as deputy principal of the Applied Technology Research Institute of Chinese Academy of Management Science (中國管理科學研究院) from March 1998 to March 2002, and was a deputy director staff at the enterprise department of Changchun Industry and Commerce Association and manager of Xunda Motorcycle Co., Ltd. (迅達摩托車公司) from October 1988 to March 1998.

Mr. Sun graduated from Anhui University of Finance & Economics (formerly known as Anhui Institute of Finance & Economics) (安徽財貿學院) (Anhui, PRC) in July 1988, majoring in merchandising. He has been a senior economist as accredited by the Personnel Office of Liaoning Province since December 2001, and a researcher as accredited by the Department of Human Resources and Social Security of Liaoning Province since September 2011.

Mr. DAI Qiang (戴強), aged 53, elected as an external Supervisor in February 2018, has been serving as the Party committee secretary of Liaoning branch company of Sinosafe Insurance (華安保險遼寧分公司) since October 2017. From March 2004 to October 2017, he served as the deputy general manager, senior underwriting officer and general manager of several branch companies of Sinosafe Insurance. From January 2001 to March 2004, he served as the assistant to general manager and chief underwriting officer of Dalian branch company of Sinosafe Insurance. From August 1991 to 2001, he served as the manager, manager of the Department of International Business and manager of the Department of Customer Service of the branch companies of China Ping An Insurance Company (中國平安保險公司).

He graduated from Dongbei University of Finance and Economics with a bachelor's degree in materials economics in July 1988 and completed an on-the-job graduate programme of finance studies organised by Dongbei University of Finance and Economics in July 2007. He was conferred with the title of economist by China Ping An Insurance Company in September 1995.

3. Biographies of Senior Management

For the biography of Mr. ZHANG Qiang (張強), please refer to "Directors, Supervisors, Senior Management and Employees – Biographies of Directors".

For the biography of Mr. WANG Yigong (王亦工), please refer to "Directors, Supervisors, Senior Management and Employees – Biographies of Directors".

For the biography of Mr. WU Gang (吳剛), please refer to "Directors, Supervisors, Senior Management and Employees – Biographies of Directors".

Mr. SUN Yongsheng (孫永生), aged 58, was appointed as the vice president of the Bank in June 2014 and served as an executive Director of the Bank from October 2015 to February 2018. He served as the director of the president's office from January 2014 to January 2017. Mr. Sun has over 20 years of experience in banking business operation and management. He served as the managing vice chairman of the labor union of the Bank from January 2014 to January 2015, general manager of the retail business department of the Bank from January 2014 to July 2014, president of the Bank's Shanghai Branch from January 2013 to January 2014, director of the president's office and director of the board's office at the Bank from February 2012 to January 2013 and president of the Bank's Shenhe Sub-branch from January 2010 to February 2012 and held the positions of general manager of the business department and (managing) deputy general manager of Shenyang operation and administration department of the Bank from July 2006 to February 2012. He joined the Huashan Sub-branch of the Bank in September 1997. From September 1997 to July 2006, he successively served as president of the Huashan Sub-branch of the Bank and president of the Bank's Binhe Sub-branch. Prior to joining the Bank, he worked successively as an administrative accountant, deputy chief of the general affairs division, chief of the accounting division at Liaoning Financial Vocational College (遼寧金融職業學院, formerly known as 遼寧省金融職工大學) and general manager of Shenyang Huashan Credit Cooperative from August 1983 to August 1997.

Mr. Sun graduated from Liaoning University (Liaoning, PRC) in June 2000, majoring in administrative management, and obtained a diploma of post-graduate study in political economics from Dongbei Normal University (Jilin, PRC) in July 2002. He has been a senior accountant as accredited by the Human Resources Department of Liaoning Province since September 2002.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Mr. ZHANG Xuewen (張學文), aged 51, was appointed as the vice president of the Bank in January 2019. He served as the party secretary and the president of the Changchun branch of the Bank from January 2014 to January 2019; the general manager of the marketing department of the Bank from August 2012 to January 2014; and the vice president of the Changchun branch of the Bank from April 2011 to August 2012. Mr. Zhang has over 25 years of experience in banking business operation and management. From December 2006 to April 2011, he served as the Director of the Second Corporate On-site Inspection Department of the Jilin Banking Regulatory Bureau and the Contact Group for Improving Small Enterprises' Financial Services of the Jilin Banking Regulatory Bureau. From September 2003 to December 2006, Mr. Zhang served as a supervisory researcher at the Deputy Department Director level of the Central Bank Department of the Jilin Banking Regulatory Bureau. From September 2001 to September 2003, he served as a principal staff member of the Central Bank Department of the Changchun Financial Regulation Bureau. From December 1998 to September 2001, he served as a senior staff member of the Second Inspection Department of the Changchun Financial Regulation Bureau. From December 1995 to December 1998, Mr. Zhang worked in the banking department of the Jilin People's Bank and from August 1991 to December 1995, served in the business department and the financial management department of the Bank.

Mr. Zhang holds a master degree in political economics from Dongbei Normal University in December 2001 and is an economist.

Mr. LI Xin (李欣), aged 49, was appointed as the vice president of the Bank in January 2019. Mr. Li has over 25 years of experience in banking business operation and management, and worked at China CITIC Bank for several years. From January 2015 to January 2019, he served as the party secretary and the president of China CITIC Bank Fuzhou branch; from December 2012 to January 2015, he served as the secretary to the board of the head office, manager of the office and head of the Dongguan branch; from March 2010 to December 2012, he served as the party secretary and the president of the Changsha branch; from June 2005 to March 2010, he served as the vice general manager and general manager of the retail bank department of the head office; from October 2004 to June 2005, he served as the assistant general manager of the sales department of the head office; from August 2001 to October 2004, he served as the president of the Beijing International Building branch; from April 1998 to August 2001, he served as the deputy director and vice general manager of THE credit department, syndicated guarantee office, asset protection department and the corporate bank department of the Beijing branch. Prior to joining China CITIC Bank, Mr. Li served as a staff member of the international business department and the Beijing business department of China Everbright Bank from December 1995 to April 1998, a liaison officer of the Beijing office of ING Bank NV from January 1995 to December 1995 and futures trader and a staff member of foreign trade import and export of the China Rural Development Trust and Investment Corporation from July 1993 to January 1995.

Mr. Li holds an executive master degree in business administration (EMBA) from the Cheung Kong Graduate School of Business.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Mr. SHEN Guoyong (沈國勇), aged 48, was appointed as the vice president of the Bank in January 2019. He has over 25 years of experience in banking business operation and management, and worked at China CITIC Bank for several years. From December 2014 to January 2019, he served as the general manager of the corporate business department of the head office of China CITIC Bank; from July 2013 to December 2014, he served as the general manager of the factoring business centre of the head office; from March 2010 to July 2013, he served as the party secretary and president of the Harbin branch; from July 2005 to March 2010, he served as the assistant to general manager and deputy general manager of the sales department of the head office (Beijing branch). From January 1999 to July 2005, he served as the corporate credit division director of the sales department and the general manager of the banking department of the head office (Beijing branch). From July 1992 to January 1999, he served as loan officer, deputy section chief and section chief of the credit department of the head office.

Mr. Shen holds a master degree in banking and finance from the Chinese University of Hong Kong and has the qualification of senior economist.

Mr. ZHOU Zhi (周峙), aged 50, has been appointed as the secretary of the Board of the Bank since February 2015. He is primarily in charge of matters relating to our Bank's information disclosure, coordinating investors relationship, and preparing for shareholders' general meetings and Board meetings in accordance with statutory procedures.

Mr. Zhou has over 20 years of experience in banking business operation and management. He has served as the director of the strategic development research centre of the Bank since March 2018. Mr. Zhou served as the deputy director of the development strategy research center of the Bank from June 2006 to March 2018. From June 2006 to January 2015, Mr. Zhou served as the director of the Supervisors' office of the Bank. From May 2005 to June 2006, Mr. Zhou served as the deputy director in the president's office of the Bank. From May 1998 to May 2005, he served as assistant to the general manager and deputy general manager of the market development department and deputy director of the development strategy research center of the Bank. From August 1991 to May 1998, Mr. Zhou successively worked as an employee of the securities department of the Bank (including its predecessor) and the City Plaza business department. Mr. Zhou joined the Nanhu Sub-branch of Shenyang Cooperative Bank, the Bank's predecessor, in August 1991.

Mr. Zhou obtained a master's degree in business administration from Liaoning University in December 2008. Mr. Zhou has been a senior economist as accredited by Human Resources Department of Liaoning Province since 2003.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

Mr. ZHANG Yi (張翼), aged 48, has been appointed as the chief information officer of the Bank since August 2013 and the general manager of our information technology department from April 2000 to March 2019.

Mr. Zhang has over 25 years of experience and extensive knowledge in information technology industry and financial industry. He joined Shenyang Cooperative Bank, our predecessor, in September 1988, and has held a number of positions at our Bank (including Shenyang Cooperative Bank) since then. From September 1988 to May 1991, he was an office staff member at Shenyang Cooperative Bank. From June 1991 to July 1997, he worked as a staff member and chief of the accounting and computer department at Shenyang Cooperative Bank. From August 1997 to March 2000, he served as deputy (managing) general manager of the information and technology department at our Bank.

Mr. Zhang graduated from Shenyang Ligong University (Liaoning, PRC) in July 2004, majoring in business management, and received a master's degree in software engineering from Dalian University of Technology (Liaoning, PRC) in July 2008. He has been an engineer as accredited by the Human Resources Department of Liaoning Province since September 2003.

Mr. LIU Zhiyan (劉志岩), aged 59, has been appointed as the chief financial officer of the Bank since June 2014, and the general manager of the planning and accounting management department of the Bank from April 2009 to March 2019. He also served as our Supervisor from September 2010 to May 2014.

Mr. Liu has over 30 years of experience in banking business operation and management. He joined the Heping Credit Cooperative of Shenyang Cooperative Bank, our predecessor, in May 1987. From May 1987 to October 1998, he successively served as deputy director and (managing) deputy chief of the accounting department of the Bank (including the Heping Credit Cooperative of Shenyang Cooperative Bank). From November 1998 to March 2009, he successively held the positions of chief of the accounting department of the Bank, president of our Yinhe Sub-branch, general manager of the credit card center and general manager of the audit department of the Bank. Before joining our Bank, he used to work at Industrial and Commercial Bank of China and served as deputy director of the Beishi local branch, deputy director of the Zhongshan Square local branch and deputy director of Hongxia Credit Cooperative from June 1984 to April 1987.

Mr. Liu graduated from the Open University of China (formerly known as China Central Radio and TV University) (Beijing, PRC) in June 2003, majoring in finance. He has been an accountant as accredited by the Human Resources Department of Liaoning Province since November 1993.

Save as disclosed above, all our Directors, Supervisors and members of senior management meet the relevant CBIRC qualification requirements for their respective positions. For those whose appointments require approval by the CBIRC, the approvals have been duly obtained.

4. Biographies of Joint Company Secretaries

Mr. ZHOU Zhi (周峙), aged 50, is one of the joint company secretaries of the Bank and was appointed in February 2015. For the biography of Mr. Zhou, please refer to “Directors, Supervisors, Senior Management and Employees – Biographies of Senior Management”.

Ms. KWONG Yin Ping Yvonne (鄺燕萍), aged 63, is one of the joint company secretaries of the Bank and was appointed in June 2014 with her appointment taking effect on the Listing Date.

Ms. Kwong has extensive experience in providing company secretarial and compliance services to numerous private and listed companies. She is a vice president of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited), a company focusing on the provision of listing company secretarial and compliance services. She currently serves as the company secretary or joint company secretary of several companies listed on the Hong Kong Stock Exchange.

Ms. Kwong received a bachelor’s degree in accounting from Hong Kong Polytechnic University in November 1997. She has been a fellow of The Hong Kong Institute of Chartered Secretaries and a fellow of The Institute of Chartered Secretaries and Administrators since 2012.

EMOLUMENT OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS OF THE BANK

For details of emolument of Directors, Supervisors and the five highest paid individuals of the Bank, please see notes 9 and 10 to the financial statements.

EMPLOYEES, EMPLOYEES’ COMPENSATION POLICIES AND TRAINING SCHEMES

As at 31 December 2018, the Bank had 5,434 employees in total.

The Bank has established a performance-based compensation system whereby an employee’s compensation is determined based on position and performance review. The Bank contributes to its employees’ social insurance and provides housing funds and certain other employee benefits in accordance with the applicable PRC laws, rules and regulations.

According to our development strategies and training plans, the Bank developed and implemented the annual training plan to support our training and enhance staff professionalism. During the Reporting Period, the Bank integrated the training resources of the head office, branches and sub-branches, arranged various special training programmes such as centralised trainings for new business, new system and new products, trainings for middle- to senior-level management, trainings for specialists, trainings for foundation-level staff and trainings for new joiners. The Bank also strengthened knowledge management and construction of internal lecturer team. The Bank conducted training sessions with total enrolments of 45,199.

CORPORATE GOVERNANCE REPORT

The Bank strives to improve the transparency and accountability of its corporate governance and ensure high standards of corporate governance to safeguard shareholders' interests and enhance its enterprise value and commitment.

In 2018, the Bank complied with the relevant laws and regulations in all material respects. The Bank also conducted performance appraisals on the Board, senior management and their members, further upgraded its standards of information disclosure and standardised its work on management of investor relations, to enhance the transparency and corporate governance standards of the Bank.

During the Reporting Period, the Bank complied with the code provisions in the Corporate Governance Code (the "Code") set out in Appendix 14 to the Listing Rules and the Listing Rules governing disclosure of inside information.

Nothing has come to the attention of the Directors to suggest that the Bank was not in compliance with the code provisions set out in the Code during the Reporting Period.

The Bank will continue to review and enhance its corporate governance in order to ensure compliance with the Code and meet the higher expectations of the Shareholders and investors.

GENERAL MEETING

Information of General Meetings

In 2018, the Bank held three general meetings, details of which are set out below:

At the 2018 first extraordinary general meeting of the Bank held on 28 February 2018, proposals were considered and approved on the matters mainly including the election of Mr. ZHANG Qiyang, Mr. ZHANG Qiang, Mr. Wang Yigong and Mr. Wu Gang as executive Directors, election of Mr. QIU Huofa, Mr. LIU Yanxue, Mr. LI Jianwei, Mr. LI Yuguo, Mr. YUEN Wing Shing and Mr. ZHAO Weiqing as non-executive Directors, election of Mr. Ni Guoju, Mr. KEUNG Chak, Mr. Tai Kwok Leung, Alexander, Mr. Xing Tiancai and Mr. Li Jinyi as independent non-executive Directors, election of Mr. Pan Wenge, Mr. LIU Huidi and Mr. Yu Haobo as Shareholder representative Supervisors, election of Mr. BA Junyu, Mr. SUN Hang and Mr. DAI Qiang as External Supervisors, amendments to the Articles of Association and issuance of financial bonds.

At the 2017 annual general meeting of the Bank held on 31 May 2018, proposals were considered and approved on the matters, mainly including the work report of the Board of Directors for 2017, the work report of the Board of Supervisors for 2017, the final financial accounts for 2017 and financial budget report for 2018, the profit distribution plan for 2017, appointment of auditors for 2018, amendments to the Rules of Reference of the Board, amendments to the Rules on Allowance to Directors and Supervisors, and the general mandate to issue new shares.

At the 2018 second extraordinary general meeting of the Bank held on 17 August 2018, a proposal was considered and approved on issuance of capital bonds amounting to not more than RMB9 billion with no fixed term. For details, please refer to the circular dated 2 July 2018 and the announcement dated 17 August 2018.

The above general meetings were convened in compliance with the procedures as required by the relevant laws and regulations.

THE BOARD AND SPECIAL COMMITTEES

Implementation of Resolutions of General Meetings by the Board

In 2018, the Board implemented the resolutions passed at the general meeting regarding, among other things, the issuance of financial bonds, the issuance of capital bonds with no fixed term, appointment of directors and supervisors, the final financial accounts for 2017 and financial budget for 2018, the profit distribution plan for 2017, appointment of auditors for 2018, and amendments to the Articles of Association, the Rules of Reference of the Board, the Rules on Allowance to Directors and Supervisors, general mandate to issue new shares and the work report of the Board of Directors and the Board of Supervisors.

Composition of the Board

As at the date hereof, the Board of the Bank comprises a total of 15 Directors, including four executive Directors, namely, Mr. ZHANG Qiyang, Mr. ZHANG Qiang, Mr. WANG Yigong and Mr. WU Gang; six non-executive Directors, namely, Mr. QIU Huofa, Mr. LIU Yanxue, Mr. LI Jianwei, Mr. LI Yuguo, Mr. YUEN Wing Shing and Mr. ZHAO Weiqing; and five independent non-executive Directors, namely, Mr. NI Guoju, Mr. KEUNG Chak, Mr. TAI Kwok Leung, Alexander, Mr. XING Tiancai and Mr. LI Jinyi.

The list of Directors (by category of Directors) was disclosed in all corporate communications issued by the Bank in accordance with the Listing Rules.

The Board is responsible for developing the management system of the Bank and monitoring the decisions on business and financial strategies, results and other important matters of the Bank. The Board is accountable to the general meeting. The Board has delegated the powers and duties in relation to management of the Bank to the management. In addition, the Board has also defined respective terms of reference of the audit committee, the nomination and remuneration committee, the strategic development committee, the related party transactions control committee and the risk control and consumers' rights protection committee. Details of such committees are set out in this report.

The Board is also responsible for performing the corporate governance functions. During the Reporting Period, the Board performed the corporate governance functions in accordance with code provision D.3.1 of the Code.

The Bank has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Financial, Business and Family Relationships between Directors, Supervisors and Senior Management

There are no relationships between each of the Directors, Supervisors and senior management of the Bank, including financial, business, family or other material relationships.

Changes in Directors

Please refer to “Directors, Supervisors, Senior Management and Employees – Changes in Directors, Supervisors and Senior Management” for details of changes in Directors of the Bank.

Operation of the Board

The Board convenes meetings on a regular basis, including regular meetings at least four times a year and other meetings when necessary. Board meetings may be conducted by way of on-site meetings or written resolutions. The agenda for a regular meeting of the Board is prepared after consulting the Directors, which will be notified to all Directors and Supervisors in writing 14 days prior to the date of such meeting. The Board paper and relevant materials for such meeting are usually circulated to all Directors and Supervisors five days prior to the date of such meeting. All Directors maintain communication with the secretary to the Board to ensure compliance with the procedures of Board meetings and all applicable rules and regulations.

Detailed minutes of Board meetings are maintained and are available for all attending Directors for their review, comments and signature after the conclusion of such meetings. The minutes of Board meetings are kept by the secretary to the Board and are available for inspection by Directors at any time. A communication and reporting mechanism has been established among the Board, Directors and senior management of the Bank. The president reports regularly to the Board and is overseen by the Board.

Relevant members of the senior management are invited to participate in Board meetings from time to time to provide explanations and answers to inquiries. Directors can express their opinions freely at Board meetings, and major decisions are made after detailed discussions. A Director must abstain from discussion and voting at a Board meeting on any proposal in which he or she is materially interested, and must not be counted in the quorum for such proposal.

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

Duties and Powers of the Board

Duties and powers of the Board mainly include, but are not limited to, the following:

- (1) convene and report at general meetings;
- (2) implement the resolutions adopted at general meetings;
- (3) make decisions on the Bank’s business plans and investment plans and formulate the Bank’s operational development strategies;

- (4) formulate the Bank's annual financial budgets and accounts;
- (5) formulate the Bank's proposals on profit distribution and loss recovery plans;
- (6) formulate proposals on the increase or reduction of the Bank's registered capital and the issuance and listing of bonds and other securities;
- (7) formulate plans for significant acquisitions, purchase of the Bank's Shares, or merger, division or dissolution or other change to the form of the Bank;
- (8) decide on matters within the scope authorised at general meetings, including major external investments, asset acquisition and sales, pledge of assets, external guarantee, trust management and related transactions;
- (9) decide on the establishment of the Bank's internal management departments and overseas branch office which is not a legal person;
- (10) appoint or remove the Bank's president and secretary to the Board in accordance with the recommendations of the Chairperson of the Board; appoint or remove the members of the Bank's senior management, including the executive vice president and chief financial officer in accordance with the recommendations of the president, and determine their remunerations, rewards and punishment;
- (11) formulate proposals on the remuneration and subsidies of the Directors of the Bank;
- (12) formulate the basic management systems, decide on the policies on risk management, internal control and compliance of the Bank;
- (13) formulate amendments to the Articles of Association;
- (14) formulate the information disclosure system of the Bank, incorporate the risk management work of the Bank's regulatory data into daily operation, implement responsibility of various aspects and manage the disclosure of information of the Bank;
- (15) propose at general meetings the engagement, replacement or dismissal of an accounting firm of the Bank;
- (16) supervise and evaluate the work performance of the Directors and senior management of the Bank, listen to the president's work report and inspect the president's work;

- (17) consider any major capital expenditure, contract and commitment which exceeds the expenditure limit set by the Board of Directors for senior management;
- (18) formulate proposals on the sale or transfer of all or substantially all of the Bank's business or assets;
- (19) draw up share incentive and equity repurchase plans of the Bank, and decide on the measures to link employees' salaries with the operational performance of the Bank;
- (20) report to the relevant authorities of the government in accordance with the laws and regulations with respect to significant events involving operational risks and financial security as well as major decisions that are likely to lead to financial risks and financial security issues before such decisions are made; and
- (21) other rights conferred by the laws, administrative regulations, departmental rules or the Articles of Association.

Unless otherwise required by the laws, regulations, regulatory authorities and the Articles of Association, the resolutions of the above matters of the Board must be approved by a majority of all the Directors, but in respect of the matters mentioned in paragraphs (5), (6), (7), (8), (10), (13), (17) and (18), the resolutions must be approved by more than two-thirds of all the Directors.

Appointment of Directors

The Directors (including non-executive Directors) are appointed for a term of three years, and are eligible for re-election upon expiry of their term of office, provided that the term of office of an independent non-executive Director must not be more than six years on an accumulative basis.

Board Meetings

Pursuant to the Code, the Board is required to convene regular meetings at least four times every year and at least once in each quarter. Such regular meetings do not include obtaining Board consent through circulating written resolutions.

In 2018, the Board convened 7 meetings in total (including written resolutions), at which 47 proposals were considered and approved, and 3 matters were heard, mainly including amendments to the Articles of Association, financial report, profit distribution, the evaluation report on internal control, the report on comprehensive risk management etc.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Attendance records of the Directors at the Board meetings, meetings of the special committees under the Board and general meetings held in 2018 are set out below:

Members of the Board	Attendance in person/by proxy/required attendance (times)						
	Board	Audit Committee	Nomination and Remuneration Committee	Strategic Development Committee	Related Party Transactions Control Committee	Risk Control Committee	General Meetings
Executive Directors							
ZHANG Qiyang	7/0/7		5/0/5	5/0/5			3/0/3
ZHANG Qiang	4/0/4			3/0/3		3/0/3	2/0/2
WANG Yigong	7/0/7				7/0/7	2/0/2	2/0/3
WU Gang	7/0/7			2/0/2		4/0/4	3/0/3
Non-executive Directors							
QIU Huofa	7/0/7		5/0/5	5/0/5			1/0/3
LIU Yanxue	4/0/4	3/0/3					1/0/2
LI Jianwei	6/1/7	3/1/4			5/0/5		0/0/3
LI Yuguo	4/3/7	1/0/1		1/1/2		2/2/4	1/0/3
YUEN Wing Shing	3/0/3				3/0/3		0/0/1
ZHAO Weiqing	7/0/7			5/0/5		2/0/2	1/0/3
Independent non-executive Directors							
NI Guoju	4/0/4				5/0/5	3/0/3	2/0/2
KEUNG Chak	3/0/3	2/0/2	2/0/2				0/0/1
TAI Kwok Leung, Alexander	3/0/3	2/0/2			3/0/3		0/0/1
XING Tiancai	4/0/4		2/0/2	3/0/3	5/0/5		1/0/2
LI Jinyi	4/0/4	3/0/3	2/0/2			3/0/3	2/0/2
Former Directors							
WANG Chunsheng	1/0/1			1/0/1	1/0/1		
SUN Yongsheng	1/0/1					1/0/1	
LIU Xinfu	0/0/1			0/0/1			
YU Yongshun	1/0/3	0/0/1				0/0/2	
LAU Chi Pang	3/1/4	2/0/2	2/1/3				
BA Junyu	3/0/3		3/0/3		3/0/3	2/0/2	1/0/1
SUN Hang	3/0/3		3/0/3		3/0/3		1/0/1
DING Jiming	3/1/4	2/0/2			3/0/3		

Notes:

1. Directors who were involved in connected transactions and required to abstain from voting at the relevant meetings are deemed as present.
2. Please refer to “Directors, Supervisors, Senior Management and Employees – Changes in Directors, Supervisors and Senior Management” for details of changes in Directors of the Bank.
3. Attendance in person includes participation by way of physical attendance as well as participation by way of electronic means such as telephone and online video conference.

Independent Non-executive Directors

During the Reporting Period, the composition of the Board met the requirements under the Listing Rules regarding the appointment of at least three independent non-executive Directors representing at least one-third of the Board, with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The independent non-executive Directors do not have any business or financial interests, nor hold any management positions, in the Bank. All the current independent non-executive Directors are elected and appointed for a term of three years, and are eligible for re-election upon expiry of their term of office, provided that the term of office of an independent non-executive Director must not be more than six years on an accumulative basis.

The Bank has received the annual confirmation from each independent non-executive Director confirming his independence as required by the Listing Rules. The Bank considers that all independent non-executive Directors are independent.

During the Reporting Period, the Bank’s independent non-executive Directors duly attended the meetings of the Board and the special committees thereof and provided independent and objective advice on various material decisions at the meetings of the Board and relevant special committees by taking advantage of their professional capabilities and industrial experiences. The Bank’s independent non-executive Directors strengthened their communication with the senior management, specific departments and external auditors and thoroughly studied the operation and management of the Bank. They diligently fulfilled their obligations and performed their duties and provided strong support to the Board to make rational decisions and protected the interests of the Bank and its Shareholders as a whole.

Director's Responsibilities for the Preparation of Financial Statements

The Directors have acknowledged their responsibility for the preparation of the financial statements of the Bank for the year ended 31 December 2018.

The Directors are responsible for overseeing the preparation of financial statements for each accounting period to make sure such financial statements give a true and fair view of the financial conditions, operation results and cash flows of the Bank.

In preparing the financial statements for the year ended 31 December 2018, the Directors have adopted and consistently applied applicable accounting policies, and exercised prudent and reasonable judgment.

Continuous Professional Development Program for Directors

Each newly appointed Director must receive a comprehensive, formal and tailored induction upon his/her first appointment, to ensure that he/she has a proper understanding of the operations and business of the Bank and that he/she is fully aware of his/her duties and responsibilities under the Listing Rules, applicable laws and regulatory rules.

Training for the Directors must be carried out on an ongoing basis. The Bank encourages all Directors to participate in continuous professional development to develop and update their knowledge and skills.

The Bank also provides the Directors with updates on the Listing Rules and other applicable regulatory requirements from time to time, to ensure that the Directors will make their contribution to the Board with informed and relevant information, abide by the Code and enhance their awareness of sound corporate governance practices.

In addition, the Directors attended a number of seminars and training courses provided by professional institutions engaged by the Bank. In 2018, the seminars and training courses attended by the Directors covered the following topics:

1. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
2. Compliant operation of Hong Kong listed companies;
3. Small and Medium Banks Corporate governance;
4. Operating Compliance and Internal Control;
5. Prevention of Risks and Transformational Development.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Directors	Topics of Trainings Attended
Executive Directors	
ZHANG Qiyang	1,2,3,4,5
ZHANG Qiang	1,2,3,4,5
WANG Yigong	1,2,3,4,5
WU Gang	1,2,3,4,5
Non-executive Directors	
QIU Huofa	1,2,3,4,5
LIU Yanxue	1,2,3,4,5
LI Jianwei	1,2,4,5
LI Yuguo	1,2,4,5
YUEN Wing Shing	1,2,3,5
ZHAO Weiqing	1,2,5
Independent non-executive Directors	
NI Guoju	1,2,4,5
KEUNG Chak	1,2,3,4
TAI Kwok Leung, Alexander	1,2,3,4
XING Tiancai	1,2,3,5
LI Jinyi	1,2,3,4
Former Directors	
WANG Chunsheng	1,2,3
SUN Yongsheng	1,2,4,5
LIU Xinfu	1,2
YU Yongshun	1,2,3
LAU Chi Pang	1,2,3
BA Junyu	1,2,3
SUN Hang	1,2,3
DING Jiming	1,2,3

Corporate Governance Functions of the Board

The Board is responsible for establishing sound corporate governance practices and procedures within the Bank. During the Reporting Period, the Board has:

1. formulated and reviewed the Bank's corporate governance policies and practices, and made recommendations;
2. reviewed and monitored the training and continuous professional development of Directors and senior management members;
3. reviewed and monitored the Bank's policies and practices in respect of compliance with laws and regulatory requirements;
4. formulated, reviewed and monitored the codes of conduct for Directors and employees; and
5. reviewed compliance with the Code and the disclosures in the Corporate Governance Report of the Bank.

Special Committees under the Board

The Board has the following committees: audit committee, nomination and remuneration committee, strategic development committee, related party transactions control committee and risk control and consumers' rights protection committee. The Board committees have been operated in accordance with their respective terms of reference defined by the Board.

Please refer to "Directors, Supervisors, Senior Management and Employees – Changes in Directors, Supervisors and Senior Management" for details of changes in Directors of the Bank.

(I) Audit Committee

As at 31 December 2018, the Bank's audit committee consisted of five Directors, including Mr. TAI Kwok Leung, Alexander as the chairman, and Mr. LIU Yanxue, Mr. LI Jianwei, Mr. KEUNG Chak and Mr. LI Jinyi as members. The composition of the audit committee complies with Rules 3.10(2) and 3.21 of the Listing Rules and paragraph C3 of the Code.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The primary duties of the audit committee include:

1. examine the Bank's risks and compliance status, accounting policies, financial reporting process and financial status, review the completeness of the Bank's financial information, including financial statements and annual report and accounts, interim reports and quarterly reports (if any), and review the major opinion related to financial reporting as disclosed in the statements and reports.

The audit committee must liaise with the Board and senior management with regard to the above matters and meet at least twice a year with the external auditors. The audit committee must consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Bank's staff responsible for the accounting and financial reporting function, compliance officer (if any) or external auditors;

2. With respect to external auditors:
 - (1) make recommendations to the Board on the appointment, reappointment or removal of the external auditors, reviewing the fees and terms of engagement of the external auditors, and handling any matters relating to the resignation or dismissal;
 - (2) review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The audit committee should discuss with the external auditors the nature and scope of the audit and the related reporting obligations before the audit commences;
 - (3) develop and implement policy on engaging external auditors to provide non-audit services;
 - (4) review the audit results letter presented by external auditors to the management, as well as any material queries raised by the auditors to the management about accounting records, financial accounts or monitoring systems, and the management's response;
 - (5) ensure that the Board will timely respond to the matters raised in the audit results letter presented by external auditors to the management; and
 - (6) act as the key representative body for overseeing the Bank's relations with the external auditors and being responsible for the communications between internal and external auditors to ensure that internal and external audit work has been coordinated.
3. being responsible for the Bank's annual audit and overseeing the senior management to rectify the issues raised in the audit and implement audit recommendations;

4. review and approve the Bank's internal audit system and supervise its implementation, review, evaluate and report to the Board on the internal audit on a regular basis, and ensure that the internal audit department has sufficient resources for operation and proper status;
5. examine the Bank's financial reporting system, risk management system and internal control system and their implementation;
6. urge the senior management to develop and implement anti-money laundering policies, systems and procedures, supervise the work of the anti-money laundering, listen to senior management reports on major anti-money laundering matters and make decisions on the policy adjustments in a timely manner; and
7. other duties required by the laws and regulations, rules and the securities regulatory authority where the Bank's shares are issued and listed, or authorised by the Board.

During the Reporting Period, the audit committee held 4 meetings, at which 37 proposals were considered, mainly including the 2017 financial report, the 2017 profit distribution plan, the 2017 internal audit work report, the 2017 evaluation report on internal control, the engagement of auditors for 2018, the 2018 comprehensive risk audit report, the financial report for the six months ended 30 June 2018 and the 2018 interim report. In addition, the audit committee held 2 meetings with the auditors and 2 meetings with the auditors in the absence of the management in accordance with the code provisions of the Code.

(II) Nomination and Remuneration Committee

As at 31 December 2018, the Bank's nomination and remuneration committee consisted of five Directors, including Mr. XING Tiancai as the chairman, and Mr. ZHANG Qiyang, Mr. QIU Huofa, Mr. KEUNG Chak and Mr. LI Jinyi as members, with a majority of the members being independent non-executive Directors.

The primary duties of the nomination and remuneration committee include:

1. review, at least annually, the structure, size and composition (including the skills, knowledge and experience) of the Board, according to the Bank's operation, asset size and ownership structure, and make recommendations with regard to any contemplated changes made to the Board in line with the Bank's development strategy and operation strategy implementations;
2. research and formulate the procedures and standards for electing the Directors and senior management, identify individuals with suitable qualifications for Directors and senior management of the Bank, and make recommendations to the Board;
3. conduct preliminary reviews of the qualifications of potential Directors and senior management, and make recommendations to the Board;
4. assess the independence of the independent non-executive Directors;

CORPORATE GOVERNANCE REPORT (CONTINUED)

5. make recommendations to the Board on the appointment or re-appointment of Directors and succession plan for Directors, in particular, the Chairperson and President of the Bank;
6. develop and review in appropriate cases the Bank's policy concerning diversity of the Board members, and make disclosure of the relevant policy or a summary of the policy in the corporate governance report of the Bank;
7. study and formulate the standards for appraising Directors and senior management and conduct appraisals and put forward proposals to the Bank;
8. review the remuneration management policies and systems of the Bank, formulate appraisal, compensation and incentive plans for the Directors and senior management, and make recommendations to the Board and supervise the implementation of the relevant policies, systems and plans. The nomination and remuneration committee must consult the Chairperson or the President of the Bank in respect of the remuneration suggestions of executive Directors and senior executives;
9. review and approve remuneration suggestions by management based on the corporate goals and objectives formulated by the Board;
10. determine the remuneration packages of the executive Directors and senior management under authorisation of the Board, or make suggestions to the Board in respect of the remuneration packages of the executive Directors and senior management;
11. make suggestions to the Board in respect of the remuneration packages of the non-executive Directors;
12. consider the salaries paid by similar banks, time and responsibilities required for the posts and terms of employment of the Bank's other posts;
13. review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment, and ensure that such compensation is consistent with the terms of the contract; if inconsistent, the compensation must be fair and reasonable but not excessive;
14. review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct, and ensure that such compensation is consistent with the terms of the contract; if inconsistent, the compensation must be fair and reasonable;
15. ensure that no Director or any of their associates is involved in deciding his or her own remuneration; and
16. other duties required by the laws and regulations, rules, and the securities regulatory authority where the Bank's shares are issued and listed, or authorised by the Board.

During the Reporting Period, the nomination and remuneration committee held 5 meetings, at which 16 proposals were considered, mainly including the performance appraisal for 2017, the appraisal report on the performance of duties by Directors for 2017, the report on the work of independent non-executive Directors for 2017 and election of Directors and the chairman of the Board.

The diversity policy of the Board is summarised as follows:

The Board believes that a board of directors with a diverse composition will enable the Bank to, in a more efficient manner, improve the work quality of the Board, understand and meet customer needs and enhance decision-making ability of the Board. In selecting candidates, the Board and the nomination and remuneration committee consider a large number of factors including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge and years of service, in order to achieve the diversity of members of the Board. The nomination and remuneration committee reports annually on the composition of the Board from the perspective of diversity, and monitors the implementation of this policy.

As at the end of the Reporting Period, the Board comprised 15 Directors, including 2 persons who were ordinarily resident in Hong Kong. The Board is diverse in terms of nationality, professional background and skills of its members.

(III) Strategic Development Committee

As at 31 December 2018, the Bank's strategic development committee consisted of five Directors, including Mr. ZHANG Qiyang as the chairman, and Mr. QIU Huofa, Mr. ZHANG Qiang, Mr. ZHAO Weiqing and Mr. XING Tiancai as members.

The primary duties of the strategic development committee include:

1. review and provide advice to the Board on the Bank's mid- and long-term development strategies;
2. supervise and assess the implementation of the Bank's development strategies;
3. review and provide advice to the Board on the annual budget and final accounts;
4. supervise and inspect the implementation of annual operation plans and investment plans;
5. review the strategic capital allocation (such as capital structure, capital adequacy ratio) and the objectives of assets and liabilities management;
6. review the Bank's plans for establishment of branches and sub-branches, material investment and financing, disposal of assets, mergers and acquisitions;
7. inspect and assess the integrity of the Bank's corporate governance structure; and
8. review the Bank's information technology strategic plan and annual business continuity management plan.

During the Reporting Period, the strategic development committee held 5 meetings, at which 24 proposals were considered on the matters mainly including operation work review for the year of 2017 and operation work plan for the year of 2018, the report of the Board of Directors for 2017, the institutional development plan for 2018, the evaluation report for capital adequacy ratio for 2017, the report on execution of green credit strategy for 2017, issuance of financial bonds, the operation work review for the first half of 2018, the operation work plan for the second half of 2018, and establishment and amendment to relevant work systems.

(IV) Related Party Transactions Control Committee

As at 31 December 2018, the Bank's related party transactions control committee consisted of five Directors, including Mr. NI Guoju as the chairman, and Mr. WANG Yigong, Mr. YUEN Wing Shing, Mr. TAI Kwok Leung, Alexander and Mr. XING Tiancai as members.

The primary duties of the related party transactions control committee include:

1. identify related parties of the Bank and report to the Board of Directors and the Board of Supervisors, and notify the relevant departments of the Bank of the related parties;
2. conduct review of related party transactions subject to review by the Board and submit such related party transactions to the Board for review, or review the related party transactions within its scope of authority;
3. supervise related party transactions conducted by the Bank; and
4. review the Bank's annual related party transactions and the plan for related party transactions control, and submit the findings to the Board for review.

During the Reporting Period, the related party transactions control committee held 8 meetings, at which 16 proposals were considered on the matters mainly including 2017 annual review of related party transactions and the 2018 control plan for related party transactions, identifying of related parties as at the end of 2017 and the results of granting credit to related party enterprises.

(V) Risk Control and Consumers' Rights Protection Committee

As at 31 December 2018, the Bank's risk control and consumers' rights protection committee consisted of five Directors, including Mr. LI Jinyi as the chairman, and Mr. ZHANG Qiang, Mr. WU Gang, Mr. LI Yuguo and Mr. NI Guoju as members.

The primary duties of the risk control and consumers' rights protection committee include:

1. ensure the effectiveness of the Bank's risk management system and that the risks faced by the Bank's business are under control;
2. review and amend the Bank's policies and reports of risk management; and conduct supervision and evaluation on its implementation in accordance with the Bank's general strategy;
3. conduct regular review of the risk report submitted by the senior management;
4. ensure that necessary measures are adopted by the senior management to identify, evaluate, measure, detect, control and mitigate risks;

5. review and approve the Bank's compliance policies, conduct regular review of the compliance risk report submitted by the senior management, and supervise the implementation of the compliance policies; and
6. conduct regular review of the Bank's information technology risk management report and the Bank's business continuity assessment report.

During the Reporting Period, based on the overall risk management strategies of the Bank, the risk control and consumers' rights protection committee reviewed and amended the Bank's risk management policies, regularly reviewed the risk reports submitted by the senior management to further understand the Bank's risk management work and the effectiveness of relevant measures, and made recommendations to the Board.

During the Reporting Period, the risk control and consumers' rights protection committee held 5 meetings, at which 34 proposals were considered on the matters mainly including the 2017 risk incident detection and inspection report, 2018 incident prevention plan, 2017 comprehensive risk management report, 2017 compliance risk management report, 2017 information technology risk management report, 2017 liquidity risk management report, 2017 money laundering risk management report, pressure testing work plan and 2018 business continuity plan. Such work mainly focused on (1) strengthening comprehensive risk management, especially continuing the construction of a comprehensive risk management system consistent with the Bank's development strategies, operational scale, business scope and risk prevention; (2) strengthening the Bank's capabilities of specific risk management, such as integrating liquidity risk management into the Bank's strategic management, constantly enhancing information technology management, reviewing compliance risk management report, and reviewing anti-money laundering risk management report; and (3) emphasising internal control management, especially reviewing the internal control evaluation report and revising the stress testing management measures.

BOARD OF SUPERVISORS

Composition of the Board of Supervisors

As at the end of the Reporting Period, the Board of Supervisors comprised nine Supervisors, including three employee representative Supervisors, namely, Mr. YANG Liya, Mr. SHI Yang and Mr. WANG Lijun, three Shareholder representative Supervisors, namely, Mr. PAN Wenge, Mr. LIU Huidi and Mr. YU Haobo, and three external Supervisors, namely, Mr. BA Junyu, Mr. SUN Hang and Mr. DAI Qiang.

Chairman of the Board of Supervisors

Mr. YANG Liya serves as the chairman of the Board of Supervisors and is responsible for organisation and performance of duties of the Board of Supervisors.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Meetings of the Board of Supervisors

In 2018, the Board of Supervisors held a total of 7 meetings, at which 42 proposals were considered and approved on matters including the work report of the Board of Supervisors, the supervision and inspection report, periodic reports, the comprehensive risk management report, the evaluation report on internal control, the compliance risk management report, the final financial accounts report, the profit distribution plan and performance appraisal on the Directors, Supervisors and senior management of the Bank.

During the Reporting Period, the external Supervisors performed their duties in accordance with the laws, regulations, the Articles of Association of the Bank and the Rules of Procedures of the Board of Supervisors, and actively participated in the special research activities of the Board of Supervisors. They duly performed their supervisory duties, exercised their supervisory power according to the laws and effectively exerted their supervision and counter-balance functions in corporate governance.

Attendance records of the Supervisors at the meetings of the Board of Supervisors and the committees under the Board of Supervisors during the Reporting Period are set out below:

Members of the Board of Supervisors	Attendance in person/by proxy/required attendance (times)		
	Board of Supervisors	Supervision Committee	Nomination Committee
YANG Liya	3/0/3	2/0/2	2/0/2
SHI Yang	7/0/7	5/0/5	0/0/0
WANG Lijun	3/0/3	0/0/0	2/0/2
PAN Wenge	7/0/7	5/0/5	0/0/0
LIU Huidi	5/1/6	0/0/0	3/1/4
YU Haobo	6/0/6	0/0/0	4/0/4
BA Junyu	5/0/5	4/0/4	0/0/0
SUN Hang	5/0/5	0/0/0	4/0/4
DAI Qiang	5/0/5	4/0/4	0/0/0
Former Supervisors			
YANG Lin	4/0/4	3/0/3	3/0/3
HAN Xuefeng	4/0/4	0/0/0	3/0/3
CHEN Zhaogui	1/0/1	0/0/0	1/0/1
SUN Yi	1/0/1	1/0/1	0/0/0
HUANG Liangkuai	2/0/2	0/0/0	1/0/1
ZHOU Zheren	2/0/2	1/0/1	0/0/0
WEN Zhaoye	2/0/2	0/0/0	1/0/1

Note: Attendance in person includes participation by way of physical attendance as well as electronic means such as telephone and online video conference.

Committees under the Board of Supervisors

The Bank has also established two committees under the Board of Supervisors: a supervision committee and a nomination committee. The committees operate in accordance with terms of reference established by the Board of Supervisors.

(I) *Supervision Committee*

As at 31 December 2018, the Bank's supervision committee under the Board of Supervisors consisted of five Supervisors, including Mr. BA Junyu as the chairman, and Mr. DAI Qiang, Mr. YANG Liya, Mr. SHI Yang and Mr. PAN Wenge as members.

The primary duties of the supervision committee include:

1. draft specific plans on supervising and examining the Bank's financial activities, operating decisions, internal control and risk management with the authorisation of the Board of Supervisors and based on the needs, put forward them to the Board of Supervisors for consideration and implement such plans upon approval;
2. review and provide advice to the Board of Supervisors on the Bank's annual financial report, annual audit report, profit allocation plan formulated by the Board; and
3. when becoming aware of any unusual operating condition of the Bank, or upon the occurrence of significant contingencies or major risk events, formulate investigation plans according to the decision of the Board of Supervisors, and if necessary, organising relevant staff or engaging intermediaries, such as accounting firms and law firms, for assistance.

During the Reporting Period, the supervision committee held 5 meetings, at which 19 proposals were considered and 30 proposals were heard on the matters mainly including 2017 operating management status audit report, the 2017 comprehensive risk management audit report, the 2017 market risk management report, the 2017 credit risk classification audit report, issuance of capital bonds with no fixed term, the 2019–2021 outline of the strategic plan and development, 2018 end of half year related parties as well as general credit and loan report to related enterprises.

(II) Nomination Committee

As at 31 December 2018, the Bank's nomination committee under the Board of Supervisors consisted of five Supervisors, including Mr. SUN Hang as the chairman and Mr. YANG Liya, Mr. WANG Lijun, Mr. LIU Huidi and Mr. YU Haobo as members.

The primary duties of the nomination committee include:

1. provide advice to the Board of Supervisors on the composition and members of the Board of Supervisors based on the Bank's operational and management status, total asset value and shareholding structure;
2. research the procedures and criteria for selecting Supervisors, conduct preliminary review on the qualifications of Supervisor candidates, and provide advice to the Board of Supervisors;
3. seek qualified supervisor candidates;
4. supervise the procedures for selection and appointment of Directors;
5. conduct comprehensive evaluation on the work performance of Directors, Supervisors and senior management and report to the Board of Supervisors; and
6. supervise the scientificity and reasonableness of the remuneration management system and policies of the Bank and the remuneration packages for the senior management.

During the Reporting Period, the nomination committee held 5 meetings, at which 8 proposals were considered on the matters mainly including the assessment of the effectiveness of selection process for appointment of Directors, the 2017 performance evaluation of senior managers, the 2017 management of remuneration performance special audit report, the special supervisory report from the Board of Supervisors regarding the mechanism for deferred performance remuneration, the management of evaluating performance of senior managers as well as the management for deferred performance remuneration.

SENIOR MANAGEMENT

The senior management, as the executive body of the Bank, is accountable to the Board and supervised by the Board of Supervisors. The division of authority between the senior management and the Board is in strict accordance with the Articles of Association and other corporate governance documents of the Bank.

The President has the right to organise and develop business and management activities in accordance with the laws, regulations, rules, the Articles of Association and under the authorisation of the Board. The President has the following functions and powers:

1. take charge of the business operation and management of the Bank, organise the implementation of the resolutions of the Board of Directors and report the work to the Board of Directors;
2. submit business plans and investment proposals to the Board of Directors on behalf of the senior management, and organise the implementation of Board resolutions, annual plans of the Bank and investment proposals upon approval by the Board of Directors;
3. draft proposals on the establishment of the Bank's internal management departments;
4. set up the Bank's basic management system;
5. formulate the Bank's specific regulations;
6. propose to the Board of Directors to engage or dismiss the vice presidents and responsible financial officer;
7. decide to engage or dismiss management other than those to be engaged or dismissed by the Board of Directors;
8. authorise the senior management of the Bank and persons in charge of internal departments and branches to conduct operational activities;
9. formulate proposals on wages, benefits, rewards and punishment of the Bank's staff, and decide on their appointment and dismissal;
10. adopt emergency measures when any major emergency, such as bank run, arises and promptly report them to the banking regulatory authority of the State Council and the Board of Directors and the Board of Supervisors; and
11. other powers and rights conferred by the Articles of Association and by the Board of Directors.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Total before tax remuneration paid to the senior management (excluding the Directors) by bands for the year ended 31 December 2018 is set out below:

Remuneration bands	Number of individuals
Nil to RMB2,000,000	0
RMB2,000,001 to RMB3,000,000	2
RMB3,000,001 to RMB4,000,000	2

DELEGATION OF POWER BY THE BOARD

The management led by the Board exercises its powers in accordance with its responsibilities as set out in the Articles of Association. Apart from implementing resolutions of the Board, the management takes charge of the daily operation and management of the Bank. Major capital expenditure projects must be approved by the Board through the annual budget proposal and then be implemented. Any projects that are either not included in the budget proposal, or included in the budget proposal but without detailed expenditures, will be decided by the management with the authorisation by the Board.

Such other matters delegated by the Board to the management include loans and guarantees, related party transactions, mortgage financing and guarantees, inter-bank financing business, acquisition of fixed assets, disposal of assets, disposal of non-performing assets and mortgage assets, write-off of assets, donations to external bodies, and establishment, merger and relocation of non-independent accounting sub-branches, provided that the amount of such transaction does not exceed a certain limit. For details, please refer to “Corporate Governance Report – The Board and Special Committees”.

CHAIRMAN AND PRESIDENT

The roles and functions of the Chairman and the President of the Bank are carried out by different persons. For details of the Chairman and the President of the Bank, please refer to the section headed “Directors, Supervisors, Senior Management and Employees”.

The Chairman of the Board is responsible for overall strategic planning and presiding over the Board, to ensure that the Board works effectively and timely considers all significant matters. The President is responsible for business development and overall operation and management of the Bank. The President is appointed by and accountable to the Board, and must perform his duties in accordance with the Articles of Association and authorisation of the Board. The roles of the Chairman and the President are separated with a clear division of responsibilities. The management is responsible for the day-to-day operation and management.

During the Reporting Period, the Chairman held 3 meetings with the non-executive Directors (including independent non-executive Directors) in the absence of the executive Directors.

SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Bank adopted the Rules for Securities Transactions by Directors, Supervisors and Key Employees of Shengjing Bank Co., Ltd. (the “Rules for Securities Transactions”) regarding securities transactions by Directors, Supervisors and certain key employees on terms not 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.

Having made specific enquiries to all Directors and Supervisors, each of the Directors and Supervisors has confirmed that they complied with the Rules for Securities Transactions during the Reporting Period.

EXTERNAL AUDITORS AND AUDITORS’ REMUNERATION

The audit opinion of the external auditors engaged by the Bank and their responsibilities are set out in the Independent Auditor’s Report.

The Bank engaged KPMG and KPMG Huazhen LLP as the international and domestic auditors of the Bank for 2018, respectively. The fees as agreed to be paid by the Bank to KPMG and KPMG Huazhen LLP for the audit of the financial statements for the year ended 31 December 2018 are RMB3.80 million and RMB1.70 million, respectively.

The Bank agreed to pay KPMG Advisory (China) Limited Beijing Branch for the non-auditing services for the year ended 31 December 2018 a fee of RMB2.7 million.

INTERNAL CONTROL

Risk Management and Internal Control

(I) Management System

The Board is responsible for the establishment and implementation of a sound risk management and internal control system as well as regularly conducting comprehensive assessment. The Board of Supervisors supervises the establishment and implementation of risk management and internal control by the Board and senior management. The senior management is responsible for the day-to-day operation of risk management and internal control across the Bank. Meanwhile, the Board has established the audit committee, the risk control and consumers’ rights protection committee and the related party transactions control committee to fulfill the responsibilities of risk management and internal control and evaluate the effectiveness of such risk management and internal control.

The Board attaches great importance to the construction of risk management and internal control, and has established a risk management system featuring “uniform leadership, vertical management and hierarchical accountability” to identify, assess and manage the major risks related to the Bank. In particular, the Bank complies with the requirements on the establishment of risk management and internal control under, among others, the PRC Commercial Banking Law, the Basic Rules on Enterprise Internal Control (《企業內部控制基本規範》), the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》) and the guidelines issued by the Basel Committee on Banking Supervision. Accordingly, the Bank developed a risk management and internal control system which covers such five aspects as internal environment, risk assessment, activity control, information and communication, and internal supervision and is in line with the Bank’s development strategies, operating scale, scope of business and risk appetite.

The Board, the Board of Supervisors and senior management constantly pay attention to the effectiveness of risk management and internal control, actively promote relevant rectification and reforms and optimise its system rules, procedures and IT system, thereby encouraging its functional departments and all branches and sub-branches to strengthen risk control in order to improve business quality.

(II) Annual Assessment

During the Reporting Period, in accordance with the PRC Commercial Banking Law, the Law on Supervision of Banking Business, the Internal Control Guidelines for Commercial Banks (《商業銀行內部控制指引》), the Guidelines for the Comprehensive Risk Management of Banking Financial Institutions (《銀行業金融機構全面風險管理指引》) and other legal and regulatory requirements and based on the Measures for Internal Control Assessment of Shengjing Bank, the Risk Reporting Policy of Shengjing Bank and other policies, the Bank organised and conducted comprehensive assessments, conducting inspection on all major business lines, assessment by risk management department and interviews, with reference to the internal audit and external inspection during the Reporting Period. Such assessment covered all material risk control aspects of the Bank, including financial, operational and compliance. During the Reporting Period, the Board has conducted an annual review of the effectiveness of the Bank’s internal control and risk management. The Board reviewed the risk management report once and the internal control report twice. The Board considers the Bank’s risk management and internal control systems effective and adequate. Meanwhile, the Board believes that the resources, qualifications and experience of staff of the Bank’s accounting, internal audit and financial reporting functions as well as providing them adequate trainings and financial budgets. There was no significant matter of concern during the Reporting Period.

(III) Management of Inside Information

The Bank attaches great importance to its information disclose, is in strict compliance with all regulations in the listing areas, adheres to the principles of timeliness, fairness, accuracy, truthfulness and completeness as to its information disclosure. The Bank has established procedures for information disclosure to designate the department responsible for managing inside information to satisfy the requirements of SFO and other applicable laws on information disclosure. The Bank also constantly improves its efforts in information disclosure and investor relations management, and carries out information disclosures in accordance with applicable laws.

For further details of risk management and internal control of the Bank, please refer to the sections headed “Management Discussion and Analysis – Risk Management” and “Internal Control” in this report.

COMPANY SECRETARY

Mr. Zhou Zhi is one of the joint company secretaries of the Company, while Ms. Kwong Yin Ping Yvonne, manager of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited), is the joint company secretary fulfilling the relevant qualification requirements of the Hong Kong Listing Rules. The company secretary is mainly responsible for facilitating the operation of the Board of Directors, ensuring the effective communication between the members of the Board of Directors and the observation of the policies and procedures of the Board of Directors, and ensuring the compliance with Hong Kong Listing Rules and other regulations by the Company. Any Director can discuss with, seek advice from and obtain information from the company secretary. The main contact in the Company for Ms. Kwong Yin Ping Yvonne is Mr. Zhou Zhi.

Each of Mr. Zhou Zhi and Ms. Kwong Yin Ping Yvonne has complied with the requirements of Rule 3.29 of the Listing Rules by receiving relevant professional training for no less than 15 hours during the Reporting Period.

INFORMATION DISCLOSURE

During the Reporting Period, the Bank was in strict compliance with the requirements of carrying out true, accurate, complete and timely information disclosure in relevant laws and regulations. The Bank simultaneously published 59 announcements on HKEx News and the Company's website to enhance the transparency of the company's governance.

Effective Communication with Shareholders

The Bank places great emphasis on communication with the Shareholders, and strives to improve mutual understanding and communication with the Shareholders through various channels including general meeting, results presentation, roadshows, visit reception and telephone enquiries.

Amendments to the Articles of Association

Reference is made to (i) the circular of the Bank dated 8 January 2019 in relation to, among other things, the amendments to the Articles of Association; (ii) the announcement of the Bank dated 22 February 2019 in relation to, among other things, the resolution on the approval of the amendments to the Articles of Association by Shareholders at the 2019 first extraordinary general meeting of the Bank.

The amended Articles of Association is subject to approval by the CBIRC Liaoning Bureau before coming into effect.

Reference is made to (i) the circular of the Bank dated 13 January 2018 in relation to, among other things, the amendments to the Articles of Association; (ii) the announcement of the Bank dated 28 February 2018 in relation to, among other things, the resolution on the approval of the amendments to the Articles of Association by Shareholders at the 2018 first extraordinary general meeting of the Bank; and (iii) the announcement of the Bank dated 8 April 2018.

The amended Articles of Association was approved by the CBIRC Liaoning Bureau on 23 March 2018 and has become effective on the same date.

SHAREHOLDERS' RIGHTS

Request of Shareholders for Convening an Extraordinary General Meeting

The Bank effectively protects shareholders' rights in strict compliance with regulatory regulations and its corporate governance system.

Shareholders individually or in aggregate holding 10% or more of the Bank's voting shares have the right to request in writing the Board of Directors to convene an extraordinary Shareholders' general meeting or a class shareholder meeting. The Board of Directors shall grant feedback in writing of whether to convene the extraordinary shareholders' general meeting or class shareholder meeting within 10 days from the receiving date of such request in accordance with the laws, administrative regulations and the Articles of Association. The shareholding of the above shareholders is based on their shareholdings on the date such request is proposed in writing.

The Board of Directors shall give notice of a shareholders' general meeting or a class shareholder meeting within five days from adoption of the resolution of the Board upon agreeing to convene an extraordinary shareholders' general meeting or a class shareholder meeting and any change to the original proposals stated in the notice shall obtain the consent of the relevant shareholders.

If the Board of Directors decides against the convening of an extraordinary Shareholders' general meeting or a class shareholder meeting, or the Board of Directors fails to grant feedback within 10 days from receiving the proposal, shareholders individually or in aggregate holding 10% or more of the Bank's voting shares are entitled to propose for convening an extraordinary Shareholders' general meeting or a class shareholder meeting to the Board of Supervisors in writing.

The Board of Supervisors shall give notice of a Shareholders' general meeting or a class shareholder meeting within five days from adoption of the resolution upon agreeing to convening an extraordinary Shareholders' general meeting or a class shareholder meeting and any change to the original proposals stated in the notice shall obtain the consent of the relevant shareholders.

If the Board of Supervisors fails to issue notice of the Shareholders' general meeting or class shareholder meeting, the Board of Supervisors will be deemed not to convene or preside over the Shareholders' general meeting or class shareholder meeting and such a meeting may be convened and presided over by shareholders individually or in aggregate holding 10% or more of the Bank's voting shares for at least ninety consecutive days.

Shareholders may refer to the Articles of Association published on the websites of the Hong Kong Stock Exchange and the Bank for details.

Proposals at General Meetings

The Board and the Board of Supervisors as well as Shareholders individually or collectively holding 3% or more voting shares of the Bank have the right to put forward proposals at a general meeting of the Bank. Shareholders may refer to the Articles of Association published on the websites of the Hong Kong Stock Exchange and the Bank for details.

Shareholders may refer to the Articles of Association published on the websites of the Hong Kong Stock Exchange and the Bank for details of the general methods and procedures for nominating Directors and Supervisors.

RELATIONSHIP WITH KEY STAKEHOLDERS

The Bank considers its employees as its core assets. The Bank has established a performance-based compensation system to encourage a fair and friendly working environment. The Bank has also developed and implemented proper strategies and plans to support the career path and professional advancement of its employees.

Paying close attention to the customers' demands, the Bank has continuously diversified its products and services as well as expanded its sales channels, with a view to optimising the customer experience and expanding its client base. The Bank will continue its endeavors to provide its customers with quality products and services.

INVESTOR RELATIONS

Shareholders and investors may send enquiries to the Board as follows:

Office of the Board, Shengjing Bank Co., Ltd.
No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC
Tel: +86 (24) 2253 5633
Fax: +86 (24) 2253 5930
E-mail: dongshihui@shengjingbank.com.cn

Principal place of business in Hong Kong of Shengjing Bank Co., Ltd.:
Units 3209, 32/F, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong

SHAREHOLDERS' ENQUIRIES

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

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Tel: (852) 2862 8555
Fax: (852) 2865 0990

Any enquiries related to your shareholding of Domestic Shares, including transfer of shares, change of address, loss reporting of share certificates and dividend notes, should be sent in writing to the following address:

Office of the Board, Shengjing Bank Co., Ltd.
No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC
Tel: +86 (24) 2253 5633
Fax: +86 (24) 2253 5930

ADDITIONAL INFORMATION

The Bank currently holds a Financial License (institution number: B0264H221010001) issued by the CBIRC Liaoning Bureau, and a Business License (credibility code: 91210100117809938P) issued by the Administration for Industry and Commerce of Shenyang. The Bank is not an authorised institution within the meaning of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), not subject to the supervision of the Hong Kong Monetary Authority, and not authorised to carry on banking and/or deposit-taking business in Hong Kong.

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

PRINCIPAL BUSINESS

The Bank engages in banking businesses and the related financial services.

BUSINESS REVIEW

A review of the Bank's business during the Reporting Period is set out in the section headed "Management Discussion and Analysis". The key financial performance indicators are set out in the section headed "Financial Highlights". Compliance with relevant laws and regulations which have a significant impact on the Bank can be found throughout this report, in particular, in the section headed "Corporate Governance Report". Analysis on the relationship with key stakeholders can also be found in the section headed "Corporate Governance Report".

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties faced by the Bank are set out in "Management Discussion and Analysis – Risk Management".

IMPORTANT EVENTS SINCE THE END OF THE REPORTING PERIOD

There are no important events affecting the Bank that have occurred since the end of the Reporting Period.

FUTURE DEVELOPMENT IN THE BANK'S BUSINESS

Please refer to "Management Discussion and Analysis – Environment and Prospects" and "Management Discussion and Analysis – Development Strategies".

PROFITS AND DIVIDEND

The Bank's revenue for the year ended 31 December 2018 and the Bank's financial position as at the same date are set out in the section headed "Financial Statements".

Pursuant to the resolutions passed at the 2017 annual general meeting of the Bank held on 31 May 2018, the Bank would distribute a cash dividend of RMB1.8 (tax inclusive) for every ten Shares of the Bank in an aggregate amount of RMB1,043.40 million to all the Shareholders of the Bank whose names appeared on the register of members on 11 June 2018. Such dividends for distribution were denominated in Renminbi. Dividends payable to holders of Domestic Shares were paid in Renminbi, whereas dividends payable to holders of H Shares were paid in Hong Kong dollars. Such dividends were distributed to the Shareholders on 2 August 2018.

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

The Board has proposed the payment of a cash dividend of RMB1.2 (tax inclusive) for every ten Shares of the Bank for the year ended 31 December 2018 in an aggregate amount of RMB695.60 million (tax inclusive) to all the Shareholders of the Bank. The dividend distribution plan will be submitted to the 2018 annual general meeting of the Bank for consideration and approval. If such proposal is approved at the 2018 annual general meeting of the Bank, the dividends will be distributed to holders of Domestic Shares of the Bank and holders of H Shares of the Bank whose names appear on the register of members on 11 June 2019 (Tuesday). Such cash dividend is expected to be distributed to the Shareholders of the Bank on 29 July 2019.

Such proposed dividend will be denominated in Renminbi. Dividends payable to holders of Domestic Shares will be paid in Renminbi, whereas dividends payable to holders of H Shares will be paid in Hong Kong dollars. The exchange rate of Renminbi to Hong Kong dollars to be adopted will be the average middle rate of five business days preceding the date of declaration of such dividends (inclusive) (being 31 May 2019 (Friday), the date of the 2018 annual general meeting of the Bank) as announced by the PBOC.

The register of members of the Bank will be closed to holders of H shares from 6 June 2019 (Thursday) to 11 June 2019 (Tuesday) (both days inclusive). In order to be entitled to the final dividend, holders of H Shares of the Bank who have not registered the relevant transfer documents are required to lodge the transfer documents, accompanied by the relevant share certificates, with the Bank's H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 5 June 2019 (Wednesday).

The amounts of cash dividend and ratios of cash dividend to profit for the year of the Bank for the past three years are as follows:

	2017	2016	2015
	<i>RMB Million, except percentages</i>		
Cash dividend (tax inclusive)	1,043.40	1,449.17	1,623.07
As a percentage of profit for the year	13.8%	21.1%	26.2%

ANNUAL GENERAL MEETING OF 2018 AND CLOSURE OF REGISTER OF MEMBERS

The Bank's 2018 annual general meeting will be held on 31 May 2019 (Friday). In order to determine the holders of H Shares who are eligible to attend and vote at the 2018 annual general meeting of the Bank, the register of members of the Bank will be closed from 1 May 2019 (Wednesday) to 31 May 2019 (Friday) (both days inclusive), during which period no transfer of shares will be registered. Holders of H Shares of the Bank who wish to attend and vote at the 2018 annual general meeting of the Bank must lodge all transfer documents, accompanied by the relevant share certificates, with the Bank's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 30 April 2019 (Tuesday).

CHANGES IN THE RESERVES

Details of the changes in the reserves of the Bank and of the reserves available for distribution for the year ended 31 December 2018 are set out in the financial statements.

PLEDGE OF ASSETS

Details of the pledge of assets of the Bank for the year ended 31 December 2018 are set out in the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the operating results and assets and liabilities of the Bank for the five years ended 31 December 2018 is set out in the “Financial Highlights”.

DONATIONS

The charitable and other donations made by the Bank for the year ended 31 December 2018 amounted to approximately RMB3.364 million.

PROPERTY AND EQUIPMENT

Details of the changes in property and equipment of the Bank for the year ended 31 December 2018 are set out in Note 22 to the financial statements.

RETIREMENT BENEFITS

Details of the retirement benefits provided by the Bank to employees are set out in Note 31 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

Details of the Bank’s substantial shareholders as at 31 December 2018 are set out in “Change in Share Capital and Shareholders – Interests and Short Positions of Substantial Shareholders and Other Persons” and the relevant parts of the notes to the financial statements, respectively.

PURCHASE, SALE AND REDEMPTION OF THE LISTED SECURITIES OF THE BANK

During the Reporting Period, the Bank did not purchase, sell or redeem any listed securities of the Bank.

PRE-EMPTIVE RIGHTS

There are no provisions in the Articles of Association and the relevant PRC laws for granting pre-emptive rights to Shareholders of the Bank. These Articles of Association provide that the Bank may increase its capital by offering new Shares to non-specific investors for subscription, placing or distributing new Shares to its existing Shareholders, or otherwise as permitted by the laws and administrative regulations.

MAJOR CUSTOMERS

In 2018, the aggregate amount of operating income generated from the five largest customers of the Bank represented no more than 30% of the total operating income of the Bank.

USE OF PROCEEDS

During the Reporting Period, the Bank applied all the proceeds from the initial public offering in accordance with the usage as disclosed in the prospectus, i.e. to strengthen our capital base so that we may continue to grow our business.

SHARE CAPITAL

Details of the change in the share capital of the Bank during the year are stated in Note 33 to the financial statements.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

The details of the Directors, Supervisors, senior management and employees are stated in the section headed “Directors, Supervisors, Senior Management and Employees”.

CONFIRMATION OF INDEPENDENCE BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Bank has received from each of its independent non-executive Directors the annual confirmation of his independence, and considered that all the existing independent non-executive Directors are independent pursuant to the guidelines set out in Rule 3.13 of the Listing Rules.

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

As at 31 December 2018, to the knowledge of the Directors after making reasonable enquiries, the interests or short positions of the Directors, the chief executive and the Supervisors in the shares, underlying shares and debentures of the Bank or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Divisions 7 and 8 of Part XV of the SFO and Section 352 of the SFO or as otherwise notified to the Bank and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules were set out as follows:

Domestic Shares

Name	Positions held at the Bank	Nature of interests	Number of Domestic Shares held (Share)	Percentage of the Domestic Shares of the Bank (%)	Percentage of the total share capital of the Bank (%)
LI Yuguo (李玉國)	Non-executive Director	Interest of a controlled corporation	400,000,000 ⁽¹⁾	9.3986	6.9005
SHI Yang (石陽)	Employee Representative Supervisor	Beneficial owner	107,684	0.0025	0.0019
WU Gang (吳剛)	Executive Director, Vice President	Interest of spouse Beneficial owner	5,722 146,149	0.0001 0.0034	0.0001 0.0025

Notes:

- (1) Please refer to "Change in Share Capital and Shareholders – Interests and Short Positions of Substantial Shareholders and Other Persons" for details.

Save as disclosed above, none of the Directors, the chief executive, or the Supervisors held any interests or short positions in the shares, underlying shares and debentures of the Bank or its associated corporations as at 31 December 2018.

FINANCIAL, BUSINESS AND FAMILY RELATIONSHIPS BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There is no relationship between each of the Directors, Supervisors and senior management of the Bank, including financial, business, family or other material relationships.

ARRANGEMENTS FOR DIRECTORS AND SUPERVISORS 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 to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS AND SERVICE CONTRACTS

Saved for the continuing connected transactions, which are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, as at 31 December 2018 and at any time during the Reporting Period, none of the Directors or Supervisors had any interest, whether directly or indirectly, in any material transaction, arrangement or contract (excluding service contracts) in relation to the Bank's business to which the Bank, or its associated companies, is a party. None of the Directors and Supervisors has entered into any service contract with the Bank that is not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACT

Save for the service contracts entered into with the management of the Bank, the Bank has not entered into any other contract with any individual, company or body corporate in relation to the management or administration of the whole or any substantial part of any business of the Bank.

DIRECTORS AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

Mr. LIU Xinfu has served as vice chairman of Shenyang Rural Commercial Bank Co., Ltd. (瀋陽農村商業銀行股份有限公司) ("Shenyang Rural Commercial Bank") since January 2012. Shenyang Rural Commercial Bank is a financial institution primarily engaging in the commercial banking business in Shenyang. Shenyang Rural Commercial Bank engages in the banking business in Shenyang, which competes with certain aspects of the Bank's business. On the basis that (i) Mr. Liu, as a non-executive director of Shenyang Rural Commercial Bank, does not participate in the daily operation and management of Shenyang Rural Commercial Bank, (ii) Shenyang Rural Commercial Bank has a management team independent of the Bank, and (iii) Mr. Liu was a non-executive Director of the Bank and did not participate in the Bank's day-to-day management during the Reporting Period, the Bank and the Directors consider that the roles of Mr. Liu acting as the vice chairman of Shenyang Rural Commercial Bank and a non-executive Director of the Bank at the same time did not have any impact on the business operation of the Bank during the Reporting Period.

CORPORATE GOVERNANCE

We are committed to maintaining high standards in corporate governance. Our approach to applying the principles and provisions of the corporate governance code are set out in the "Corporate Governance Report". In addition, the Bank's environmental policies are discussed in the "Social Responsibility Report".

RELATED PARTY TRANSACTIONS

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

The definition of connected persons under Chapter 14A of the Listing Rules is different from the definition of related parties under International Accounting Standard 24, "Related Party Disclosures", and its interpretations by the International Accounting Standards Board. Certain related party transactions set out in Note 38 to the financial statements also constitute connected transactions or continuing connected transactions as defined under the Listing Rules, but none of them constitute any discloseable connected transaction as defined under the Listing Rules.

REMUNERATION POLICIES FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Under the guidance of the relevant policies of the PRC, the Bank endeavors to improve its remuneration management measures and performance evaluation system for Directors, Supervisors and senior management.

The remuneration system for the Directors, Supervisors and senior management adheres to the principle of balancing incentives and restraints, focusing on both short-term and long-term incentives and integrating governmental control with market regulation. Such remuneration system consists of basic annual salary, annual performance bonus, medium- to long-term incentives, allowances and benefits. The Bank makes contributions to various statutory pension plans organised by governments at all levels for its Directors, Supervisors and senior management.

PUBLIC FLOAT

Based on the public information available to the Bank and to the knowledge of the Directors, as at the Latest Practicable Date, the Bank has been maintaining sufficient public float to comply with the minimum public float requirement by the Hong Kong Stock Exchange.

TAX RELIEF (HOLDERS OF H SHARES)

According to the Enterprise Income Tax Law of the PRC and its implementation rules, both effective on 1 January 2008, the Bank shall withhold the enterprise income tax at a rate of 10% for non-resident enterprise shareholders whose names appear on the register of holders of H shares on 11 June 2019.

Pursuant to the Notice on the Issues in Relation to the Taxation and Administration of the Personal Income Tax upon the Abolition of the Document Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), the Bank shall withhold personal income tax for the non-resident individual shareholders.

For non-resident individual shareholders who reside in Hong Kong, Macau and other countries or regions that have entered into a taxation treaty with the PRC stipulating a tax rate of 10% (applicable to distribution of dividends in cash to its residents), the Bank shall withhold the personal income tax at a rate of 10% for such shareholders.

For non-resident individual shareholders who reside in countries or regions that have entered into a taxation treaty with the PRC stipulating a tax rate of less than 10% (applicable to distribution of dividends in cash to its residents), the Bank shall withhold the personal income tax at a rate of 10% for such shareholders. Should such shareholders demand that the amount in excess of the personal income tax payable under the taxation treaty be refunded, the Bank shall apply for the refund from the relevant inland revenue departments, provided however that such shareholders have submitted relevant documents in accordance with the requirements of the Administrative Measures on Tax Treaty Treatment for Non-resident Taxpayers (Announcement of the State Administration of Taxation [2015] No. 60) (《非居民納稅人享受稅收協議待遇管理辦法》(國家稅務總局公告2015年第60號)) within a stipulated time frame.

For non-resident individual shareholders who reside in countries or regions that have entered into a taxation treaty with the PRC stipulating a tax rate of more than 10% but less than 20% (applicable to distribution of dividends in cash to its residents), the Bank shall withhold the personal income tax for such shareholders at the applicable rate as stipulated in the said taxation treaty.

For non-resident individual shareholders who reside in countries or regions that have not entered into any taxation treaty with the PRC and otherwise, the Bank shall withhold the personal income tax at a rate of 20% for such shareholders.

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

According to the relevant requirements under the Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Finance Tax [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) jointly published by the Ministry of Finance, State Administration of Taxation and China Securities Regulatory Commission, the Bank shall withhold an individual income tax at a rate of 20% on dividend derived from the H Shares of the Bank acquired through the Shanghai-Hong Kong Stock Connect by mainland individual investors. For dividend received by domestic securities investment funds from investing in the H Shares of the Bank through the Shanghai-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The Bank will not withhold the income tax on dividend derived from the H Shares of the Bank acquired through the Shanghai-Hong Kong Stock Connect for domestic enterprise investors, and those domestic enterprise investors shall report and pay the relevant tax themselves.

According to the relevant requirements under the Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Finance Tax [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)) jointly published by the Ministry of Finance, State Administration of Taxation and China Securities Regulatory Commission, the Bank shall withhold an individual income tax at a rate of 20% on dividend derived from the H Shares of the Bank acquired through the Shenzhen-Hong Kong Stock Connect by mainland individual investors. For dividend received by domestic securities investment funds from investing in the H Shares of the Bank through the Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The Bank will not withhold the income tax on dividend derived from the H Shares of the Bank acquired through the Shenzhen-Hong Kong Stock Connect for domestic enterprise investors, and those domestic enterprise investors shall report and pay the relevant tax themselves.

Shareholders are recommended to consult their tax advisers regarding the PRC, Hong Kong and other tax implications arising from their holding and disposal of H Shares of the Bank. The Bank assumes no liability for and will not deal with any dispute over the above tax withholding triggered by the failure to submit any documentary evidence within the stipulated time frame.

AUDITORS AND REVIEW OF ANNUAL RESULTS

KPMG and KPMG Huazhen LLP were appointed as the international and domestic auditors of the Bank for 2018, respectively.

KPMG has audited the Bank's financial report for 2018 prepared according to the International Financial Reporting Standards and issued an auditor's report with no qualified opinions. The audit committee of the Bank has reviewed the results and financial reports for the year ended 31 December 2018.

PERMITTED INDEMNITY PROVISION

The Bank has arranged for appropriate insurance coverage for directors' and officers' liabilities in respect of potential legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) when the report of the Board of Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance.

By order of the Board
Shengjing Bank Co., Ltd.
ZHOU Zhi
Joint Company Secretary

Shenyang, Liaoning Province, China
29 March 2019

During the Reporting Period, the Board of Supervisors earnestly performed its supervisory duties, carried out supervision on specific issues and promoted the implementation of supervision opinions pursuant to the relevant provisions of the Company Law of the PRC, the Guidelines on the Corporate Governance of Commercial Banks, the Guidelines on the Functioning of Supervisory Board of Commercial Banks and the Articles of Association of the Bank; and it effectively improved the quality and effectiveness of supervision and contributed to the corporate governance of the Bank in compliance with the laws and regulations.

I. REPORT ON MAJOR WORK

The Board of Supervisors completed the re-election of its members, elected a new Chairman, adjusted the composition of its Supervision Committee and Nomination Committee, and further optimised its composition structure. The Board of Supervisors improved the process supervision, strengthened communication and exchange in advance, participated in brewing and implementation process of operational decisions, and put forward supervision advice on major concerns, including financial decisions, formulation of system, disposal of assets and project tendering, by attending senior management meetings such as president's work meeting, so as to deliver more solid outcomes from its supervision work.

The Board of Supervisors conducted comprehensive investigations on the Bank's network of 17 departments at the headquarters, and 18 branches and 32 sub-branches, with focus on financial management, risk control and system construction, as well as utilization of fixed assets, network construction, job allocation and human resources at the branches, made recommendations for strengthening unified credit management, intensifying credit asset management, promoting the layout of outlet network in developed regions and optimising the outlet network in Shenyang, Liaoning Province, and made efforts to solve the problems.

The Board of Supervisors continued to carry out special supervision on operation and management. Specifically, based on the actual situation of research and investigation, the Board of Supervisors carried out special supervision on quarterly business activities, compensation management, utilization of fixed assets, accountability of compliance management and implementation of regulatory opinions, by way of listening to the report, searching for information and interviewing with relevant personnel; and it put forward the Advice on Strengthening the Accountability, and the Opinion on Further Improving the Use Efficiency of Branch Building and other supervision advice, timely reported to the Board of Directors and the senior management, and followed up and implemented to continually enhance the supervision role of the Board of Supervisors.

The Board of Supervisors conducted supervision and evaluation on strategy formulation and implementation, organized the formulation of the evaluation plan on the implementation of the development strategy, evaluated the soundness, rationality and effectiveness of the 2017 development strategy by way of searching for information, collecting data, conducting interviews and holding seminars, and put forward supervision advice on issues identified. The Board of Supervisors promoted the formulation of the development strategy for 2019-2021, participated in research and argumentation, and proposed amendment suggestions on average growth rate of the scale of total assets, construction of corporate governance system and evaluation and management of development strategies.

The Board of Supervisors conducted comprehensive evaluation on the performance of duties by the Directors, the Supervisors and the senior management, formulated the comprehensive evaluation plan for their performance of duties, and proposed a comprehensive evaluation opinion on the performance of the Directors by inviting the assessment and examination group comprised of employee representative supervisors, external supervisors, independent directors, and shareholders representatives to carry out specific assessment, and according to the report on work and responsibility performance form of directors and supervisors, lines of business operations, management performance the senior management, internal control and compliance management, and submitted the special report to the shareholders' general meeting and regulatory authorities.

II. INDEPENDENT OPINIONS ON RELEVANT MATTERS

1. Operations in Compliance with Laws and Regulations

During the Reporting Period, the Board of Directors and the senior management duly performed their duties, cooperated effectively, mobilized all staff and promoted all work of the Bank in an active and orderly manner pursuant to the Company Law of the PRC, the Guidelines on the Corporate Governance of Commercial Banks, and the Articles of Association of the Bank, which laid a sound foundation for the solid development of the Bank. The Board of Directors earnestly performed its decision-making function, considered and formulated the development plan for the next three years, and firmly implemented the strategic transformation and innovation development, thus its role of strategic leadership has been further pronounced. The senior management fully understood the strategic intent of the Board of Directors, studied and formulated feasible measures, accelerated the structure adjustment of assets, liabilities and customers, promoted the continuous improvement of the system and deepened the structural adjustment, which promoted a positive and progressive development trend in business operations.

2. Truthfulness of Financial Report of the Bank

During the Reporting Period, the Bank has prepared the 2018 financial report according to the International Accounting Standards and relevant provisions of the Listing Rules, and KPMG has audited the same and issued an auditor's report with no qualified opinions. The auditor's report gave a true and objective view of the financial position and operating results of the Bank.

3. Use of Proceeds

During the Reporting Period, the Bank issued tier 2 capital bonds in an amount of RMB26.9 billion for the replenishment of the Bank's tier 2 capital in accordance with the applicable laws and the approvals from regulatory authorities, and the use of proceeds was consistent with that as stated in the prospectus.

4. Acquisition and Disposal of Assets by the Bank

During the Reporting Period, the Bank had no material acquisition or disposal of assets.

5. Related-party Transactions

During the Reporting Period, the Bank's related-party transactions were in compliance with the Administrative Measures on Related-Party Transactions with Insiders and Shareholders of Commercial Banks, were fairly and reasonably priced and were not detrimental to the interests of the Shareholders or the benefits of the Bank.

6. Internal Control

During the Reporting Period, the Bank continued to improve the organisational structure of internal control and pushed forward the establishment of internal control system, which contributed to the steady improvement of internal control level and effective internal control in all material respects. The Board of Supervisors was not aware of any material defect in the Bank's internal control system or its implementation.

7. Implementation of the Resolutions of Shareholders' General Meetings

During the Reporting Period, the Board of Supervisors had no objection to any resolution or report submitted by the Board of Directors to the shareholders' general meetings in 2018, and the Board of Directors and the senior management had duly implemented the resolutions of the shareholders' general meetings.

Focusing on the development goal that aims at growing into a “comprehensive, diversified and quality joint-stock commercial bank with a leading position among banks of the same type”, and under the guiding principles of “strengthening internal operation and management and building a positive market image externally”, Shengjing Bank has achieved the virtuous circle of improvement on the quality and efficiency of its own operation and regional economic and social development by adhering to the market positioning aimed to “serve the local economy, small and medium-sized enterprises as well as urban and rural residents”, leveraging the institutional mechanism and decision-making efficiency of the headquarters, continuously strengthening its capabilities of aggregation and radiation as well as delivery and guidance, focusing on serving the real economy and improving people’s wellbeing.

I. SUPPORTING THE STRUCTURAL ADJUSTMENT OF LOCAL ECONOMY AND IMPROVING THE SERVICE LEVEL FOR THE REAL ECONOMY

The Bank continuously increases capital investments in regional economic development and optimises the concepts and methods for serving the development of the real economy. In order to meet the fund demand for the implementation of regional development strategy, major infrastructures and key fields, the Bank provides multi-channel and low-cost funding support for regional economic development by comprehensive application of many financial product portfolios, prioritizes the financing needs of key fields, important projects, pillar industries and high-quality enterprises, and makes great efforts to create a pattern for serving the real economy that is comprehensive, across the board, multi-channel, integrated and innovative.

The Bank actively gives full play to the resource adjustment and allocation function of financial leverage to support the adjustment of national strategic layout and economic transformation and upgrading. Pursuant to the requirements of the initiative of “Made in China 2025”, the Bank continuously optimizes the investment of credit funds, strongly supports the infrastructures, pillar industries, key industries and major projects which are both nationwide and market-leading and have been included in the national plan, actively supports the transformation and upgrading of equipment manufacturing enterprises, and helps state-owned enterprises to address funding needs and difficulties. Meanwhile, focusing on the five priority tasks of “cutting overcapacity, destocking, deleveraging, reducing corporate costs and shoring up weak spots”, the Bank actively strives to support supply-side structural reform through differentiated credit policy.

The Bank continues to increase support for the green economy, fully promotes the development of green credit business, and vigorously supports green, recycling and low-carbon economic development. The Bank also continues to increase support for wastewater treatment, greening projects, equipment upgrading and transformation of electricity and heating supply enterprises and other special projects to contribute to ecological construction.

II. PRACTICING THE CONCEPT OF INCLUSIVE FINANCE AND SUPPORTING THE SUSTAINABLE AND HEALTHY DEVELOPMENT OF PRIVATE AND SMALL AND MICRO BUSINESSES

The Bank attaches high importance to the financial services for private and small and micro businesses. The Bank constantly increases the allocation of credit resources to private enterprises, and meets the financing needs of key fields and major private enterprises.

The Bank emphasizes on practicing the concept of inclusive finance and spares no efforts to support the development of small and micro businesses by strengthening provision of services for product innovation, enhancing the risk management system construction and improving the quality and efficiency of financing for small and micro businesses.

The Bank continues to increase its financial support for agricultural enterprises and promote financial services for agricultural enterprises. It has guided and promoted six village banks to “establish a foothold at county level and support farmers and small enterprises” to improve the service level and reduce the financing cost for “agriculture, rural areas and farmers”, and practice the concept of inclusive finance.

III. DEVELOPING NEW PRODUCTS AND BUSINESSES AND LIVING UP TO PEOPLE'S EXPECTATION FOR GOOD LIFE

The Bank firmly performs the social responsibility of a bank with the brand image featuring financial services for people's well-being, continuously enhances its financial support for infrastructure construction related to social well-being such as water, electricity, gas, heating, and public services such as medical care and education, so as to promote the harmonious development of regional economy and society.

Keeping the mission of benefiting the people in mind, and in order to meet their increasing consumption demand, the Bank improves the service system for customers' wealth, vigorously improves the coverage, availability and customers' satisfaction of financial services by launching various products such as smart deposit products, certificate deposits and structural deposits, to meet the diversified needs of citizens arising from consumption upgrading and live up to people's expectation for good life.

IV. ACTIVELY FULFILLING SOCIAL RESPONSIBILITY AND PARTICIPATING IN SOCIAL PHILANTHROPY

The total tax payment of the Bank for the year 2018 amounted to RMB2.249 billion, among which, the tax payment for Shenyang area, where the head office is located, amounted to RMB1.45 billion, ranking the Bank the first tax payer among the financial institutions in Liaoning Province for consecutive years. Meanwhile, the Bank gives full play to its function of serving the real economy, actively supports and promotes the development of enterprises in the region, to drive the growth in corporate tax revenue and boost taxation growth in the region.

While continuing to achieve fruitful business achievements, the Bank actively undertook social responsibilities, and solidly carried out targeted poverty alleviation in 2018. The Bank actively supported social philanthropy and made a donation of RMB3,364,000 to the public. The Bank organised internal supportive activities to show its care and condolences and give warmth by distributing aid funds of RMB306,000 to 83 employees in difficulties.

V. DEEPENING THE PROMOTION OF PROTECTION OF CONSUMER RIGHTS AND INTERESTS AND BECOMING A RESPONSIBLE BANK

In 2018, the Bank made every effort to organise and implement the project of consolidating consumer rights protection by taking system construction, inclusive finance and service improvement as the starting point, taking various measures to consolidate the foundation and working hard; and it vigorously carried out activities to popularize and promote all kinds of financial knowledge, strengthened internal evaluation, showed extra care for special groups, and continuously enhanced level of customer right protection work and improved customer satisfaction, which allowed the Bank to keep on attaining the highest grades in the annual performance appraisal in terms of customer right protection conducted by regulatory authorities.

INTERNAL CONTROL

Regarding internal control, the Bank builds a relatively sound, complete and reasonable internal control system that is in line with its development strategies, business scale, business scope and risk preference, establishes an efficient organisational structure for internal control with checks and balances, and puts in place an all-encompassing, effective and multi-level internal control system and relevant procedures, which are refined and enhanced in the course of business practices on ongoing basis to ensure sound and effective internal control and improved risk management and internal control capabilities. These efforts led to sound and sustained business operation in an orderly way and effective prevention of operating risks.

The Bank has established a corporate governance structure comprising the shareholders' general meeting (as the ultimate authority), the Board of Directors (as the decision-making body), the Board of Supervisors (as the supervisory body) and the senior management (as the executive body), forming a well-functioning, coordinated and balanced corporate governance structure.

Decision-making level: the Board of Directors of the Bank is responsible for the establishment and implementation of an adequate and effective internal control system for ensuring the prudent operation of the Bank under the framework of laws and policies, specifying and determining the acceptable level of risks, ensuring that necessary measures on risk control are taken by the senior management, and supervising the senior management in monitoring and assessing the adequacy and effectiveness of the internal control system.

Execution level: the senior management of the Bank is responsible for the execution of decisions made by the Board of Directors; it formulates systematic policies, procedures and methods and adopts corresponding risk control measures based on the acceptable level of risks determined by the Board of Directors; it establishes and improves internal organisational structure to ensure the effective performance of all duties under the internal control system; and it organizes monitoring and evaluation on the adequacy and effectiveness of the internal control system.

Supervision and evaluation level: the Board of Supervisors of the Bank is responsible for supervising the improvement of the internal control system by the Board of Directors and the senior management and supervising the fulfillment of the internal control duties by the Board of Directors, the senior management and their members.

By persisting in management in compliance with the laws and regulations, conducting forward-looking market analysis and implementing prudent risk control strategy, the Bank has made further progress in promoting innovative transformation development and comprehensive operation, diversifying its licenses for businesses, products and functions, enhancing pricing management and control of operation costs, improving corporate governance structure, deepening system and mechanism reform, and strengthening talent team construction and information technology construction, thus continuously improving the soundness and effectiveness of business planning, resource allocation, assessment and evaluation, risk management, team building and other management work.

Guided by the principle of “a sound system is the foundation to business development”, the Bank continuously improves the internal control system. The Bank establishes systematic and standardized business system and management system for various business activities and management activities, which are reviewed regularly. Moreover, the Bank pays close attention to the impact of changes in the laws and regulations on existing business and process, supervises the implementation of systems, regulations and processes within the Bank and timely carries out the activity of “studying and understanding the laws and regulations to improve the internal rules and regulations” and strengthens the guiding role of the system in business development. In light of operation and management needs, the Bank establishes an internal control system characterised by clear division of labor and mutually binding functions of front, middle and back offices, which meets the requirements of professionalism and integration. The Bank adheres to the implementation of comprehensive risk management process, proactively carries out risk research and management, and take the qualitative and quantitative methods to identify, measure, assess, monitor, report, control or mitigate various risk exposure, gradually enhance risk control ability, and establish and improve the comprehensive risk management system covering credit risk, market risk, operation risk and liquidity risk from policies and systems, organizational structure, management process and management tools, thus ensuring that the risks are controllable.

The Bank establishes a vertical management system for auditing function, defines the responsibilities and authority of different departments and positions, clarifies corresponding reporting routes, makes appropriate allocation of positions, implements rotation and compulsory leave system for important positions and employees and strengthens supervision and examination of employees' behavior.

The Bank has established a sound information technology management system and has formulated a strategic policy and general plan for information development aiming to fulfil its business strategy with the support of information construction, thus ensuring that the plan is forward-looking and systematic. The Bank continues to promote the “three defense lines” of information technology management, information technology risk management and information technology audit, defines the implementation roadmap, strengthens the execution of the plan, establishes regular assessment mechanism and ensures the soundness and practicability of the planning.

The Bank builds a supervision system for internal control combining “on-site and off-site”, “regular and special”, “self and otherwise” examinations and devotes greater efforts in the inspection and supervision on businesses. The Bank formulates and improves risk identification and evaluation procedures on a continuing basis and strengthens the identification, monitoring and evaluation in respect of various risks. In light of operational capacity, level of management, risk status and business development needs of different branches and sub-branches and various departments, the Bank sets up corresponding authorization system and makes necessary adjustments in a dynamic way.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of Shengjing Bank Co., Ltd.

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

OPINION

We have audited the consolidated financial statements of Shengjing Bank Co., Ltd. (the "Bank") and its subsidiaries (collectively the "Group") set out on pages 139 to 300, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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") issued by the International Accounting Standards Board ("IASB") 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 Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). 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 are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the PRC, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for 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.

LOSS ALLOWANCES OF LOANS AND FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST

Refer to note 19 and 20(c) to the consolidated financial statements and the accounting policies in note 2(f).

The Key Audit Matter

The Group has adopted IFRS 9 Financial Instruments ("IFRS 9") since 1 January 2018 and developed a new impairment model for financial assets.

The determination of loss allowances using the expected credit loss model is subject to a number of key parameters and assumptions, including the identification of loss stages, estimates of probability of default, loss given default, exposures at default and discount rate, adjustments for forward-looking information and other adjustment factors. Management judgment is involved in the selection of those parameters and the application of the assumptions.

How the matter was addressed in our audit

Our audit procedures to assess loss allowances of loans and financial investments measured at amortised cost included the following:

- understanding and assessing the design, implementation and operating effectiveness of key internal controls of financial reporting over the approval, recording and monitoring of loans and financial investments measured at amortised cost, the credit grading process and the measurement of loss allowances. For the key underlying systems used for the processing of transactions in above processes, we utilised our information technology specialists to assess the design, implementation and operating effectiveness of a selection of relevant automated controls within these systems. We also assessed the design, implementation and operating effectiveness of the key internal controls over these underlying systems, including controls over access to these systems and controls over data and change management;
- assessing the reliability of the expected credit loss model used by management in determining loss allowances, including assessing the appropriateness of the key parameters and assumptions in the expected credit loss model, including the identification of loss stages, probability of default, loss given default, exposure at default, discount rate, adjustments for forward-looking information and other management adjustments;

LOSS ALLOWANCES OF LOANS AND FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST (CONTINUED)

Refer to note 19 and 20(c) to the consolidated financial statements and the accounting policies in note 2(f).

The Key Audit Matter

In particular, the determination of the loss allowances is heavily dependent on the external macro environment and the Group's internal credit risk management strategy. The expected credit losses for corporate loans and financial investments are derived from estimates including the historical losses, internal and external credit grading and other adjustment factors. The expected credit losses for personal loans are derived from estimates whereby management takes into consideration historical overdue data, the historical loss experience for personal loans and other adjustment factors.

Management also exercises judgement in determining the quantum of loss given default based on a range of factors. These include available remedies for recovery, the financial situation of the borrower, the recoverable amount of collateral, the seniority of the claim and the existence and cooperativeness of other creditors. Management refers to valuation reports issued by qualified third party valuers and considers the influence of various factors including the market price, location and use when assessing the value of property held a collateral. The enforceability, timing and means of realisation of collateral can also have an impact on the recoverable amount of collateral and, therefore, the amount of loss allowances as at the end of the reporting period.

We identified the impairment of loans and advances to customers and financial investments measured at amortised cost as a key audit matter because of the inherent uncertainty and management judgement involved and because of its significance to the financial results and capital of the Group.

How the matter was addressed in our audit

- assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model. For key parameters derived from internal data relating to original loan agreements, we compared the total balance of the loan and financial investment list used by management to assess the allowances for impairment with the general ledger, selecting samples and comparing individual loan and investment information with the underlying agreements and other related documentation to assess the accuracy of compilation of the loan and investment list. For key parameters derived from external data, we selected samples to inspect the accuracy of such data by comparing them with public resources;
- for key parameters involving judgement, critically assessing input parameters by seeking evidence from external sources and comparing to the Group's internal records including historical loss experience and type of collateral. As part of these procedures, we challenged the Group's revisions to estimates and input parameters, compared with prior period and on transition to the new accounting standard and considered the consistency of judgement. We compared the economic factors used in the models with market information to assess whether they were aligned with market and economic development;
- for key parameters used in the expected credit loss model which were derived from system-generated internal data, assessing the accuracy of input data by comparing the input data with original documents on a sample basis.

LOSS ALLOWANCES OF LOANS AND FINANCIAL INVESTMENTS MEASURED AT AMORTISED COST (CONTINUED)

Refer to note 19 and 20(c) to the consolidated financial statements and the accounting policies in note 2(f).

The Key Audit Matter

How the matter was addressed in our audit

- evaluating the validity of management's assessment on whether the credit risk of the loan has, or has not, increased significantly since initial recognition and whether the loan is credit-impaired by selecting risk-based samples. We analysed the portfolio by industry sector to select samples in industries more vulnerable to the current economic situation with reference to other borrowers with potential credit risk. We checked loan overdue information, making enquiries of the credit managers about the borrowers' business operations, checking borrowers' financial information and researching market information about borrowers' businesses;
- for selected samples of loans and financial investments measured at amortised cost that are credit-impaired, evaluating management's assessment of the value of any property collateral held by comparison with market prices based on the location and use of the property and the prices of neighbouring properties. We also evaluated the timing and means of realisation of collateral, evaluated the forecast cash flows challenged the viability of the Group's recovery plans, and evaluated other credit enhancements that are integral to the contract terms;
- recalculating the amount of credit loss allowance for 12 month and life time credit losses using the expected credit loss model based on the above parameters and assumptions for a sample of loans and investments where the credit risk of the loan has not, or has, increased significantly since initial recognition, respectively.
- evaluating whether the disclosures on impairment of loans and financial investments measured at amortised cost meet the disclosure requirements in the prevailing accounting standards.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Refer to note 20(a) and 20(b) to the consolidated financial statements and the accounting policies in note 40.

The Key Audit Matter

Financial instruments carried at fair value account for a significant part of the Group's assets. The effect of fair value adjustments of financial instruments may impact either the profit or loss or other comprehensive income.

The valuation of the Group's financial instruments, held at fair value, is based on a combination of market data and valuation models which often require a considerable number of inputs. Many of these inputs are obtained from active market readily available data. For level 2 financial instruments in the fair value hierarchy, the valuation techniques for which use quoted market prices and observable inputs, respectively.

The Group has developed its own models to value certain financial instruments, which also involve significant management judgement.

We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the degree of judgement exercised by management in determining the inputs used in the valuation models.

How the matter was addressed in our audit

Our audit procedures to assess the fair value of financial instruments included the following:

- understanding and assessing the design, implementation and operating effectiveness of key internal controls over the valuation, independent price verification, front office and back office reconciliations and model approval for financial instruments;
- performing independent valuations, on a sample basis, of financial instruments and comparing our valuations with the Group's valuations. Our procedures included comparing the valuation models of the Group with our valuation methods, and developing parallel models to revalue;
- assessing whether the disclosures in the consolidated financial statements with reference to the requirements of the related financial reporting standards, and appropriately reflected the Group's exposure to financial instrument valuation risk.

CONSOLIDATION OF STRUCTURED ENTITIES

Refer to note 42 and 43 to the consolidated financial statements and the accounting policies in note 45(f).

The Key Audit Matter

Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor to, a structured entity through issuing a wealth management product, an asset management plan, a trust plan or an asset-backed security.

In determining whether a structured entity is required to be consolidated by the Group, management is required to consider the power the Group is able to exercise over the activities of the entity and the Group's exposure to and ability to influence its own returns from the entity. In certain circumstances the Group may be required to consolidate a structured entity even though it has no equity interest therein.

As at 31 December 2018, the carrying amount of the Group's non-equity interests in structured entities sponsored by third party institutions which were not consolidated by the Group was RMB229,658 million whilst, the amounts of assets held by structured entities sponsored by the Group which the Group did and did not consolidate but in which it held a non-equity interest were RMB4,766 million and RMB52,286 million, respectively.

We identified the consolidation of structured entities as a key audit matter because it involves significant management judgement to determine whether a structured entity is required to be consolidated by the Group or not and because the impact of consolidating a structured entity on the consolidated statement of financial position and relevant regulatory capital requirements could be significant.

How the matter was addressed in our audit

Our audit procedures to assess the consolidation of structured entities included the following:

- making enquiries of management and inspecting documents relating to the judgement process over whether a structured entity is consolidated or not to assess whether the Group has a robust process in this regard;
- selecting significant structured entities of each key product type and performing the following procedures for each entity selected:
 - inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity;
 - reviewing the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management's judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity;
 - reviewing management's analyses of the structured entity including qualitative analyses and calculations of the magnitude and variability associated with the Group's economic interests in the structured entity to assess management's judgement over the Group's ability to influence its own returns from the structured entity;
 - assessing management's judgement over whether the structured entity should be consolidated or not;
- assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

TRANSITION ADJUSTMENTS AND DISCLOSURES IN RELATION TO THE CHANGE OF FINANCIAL INSTRUMENTS STANDARDS

Refer to note 2(b) to the consolidated financial statements.

The Key Audit Matter

The Group has adopted IFRS 9 since 1 January 2018.

The new financial instruments standards have amended the previous classification and measurement framework of financial instruments and introduced a more complex expected credit loss model to assess impairment. The Group is required to retrospectively apply the classification and measurement (including impairment) requirements and recognise any difference between the original carrying amount and new carrying amount at the date of initial application (i.e. 1 January 2018) in the opening retained earnings or other comprehensive income.

We identified the transition adjustments and disclosures in relation to the change of financial instruments standards as a key audit matter, because of the complexity of the transition process which involved changes in internal controls of the financial reporting process, accounting treatment, application of new data and management judgment.

How the matter was addressed in our audit

Our audit procedures to the transition adjustments in relation to the change in financial instruments standards included the following:

- understanding and assessing the key internal controls of the financial reporting process related to the change of financial instrument standards;
- evaluating the accuracy of the classification of financial instruments. We obtained information on how management applied the classification requirements of the new financial instruments standards and the classification results. On a sample basis we assessed the contractual cash flow characteristics of the financial assets and relevant documents in relation to the business model;
- for financial assets that are measured at fair value due to changes in classification, we obtained information on the valuation method and key parameters used, selected samples to evaluate the validity of the valuation method and key parameters and in light of industry practice;
- assessing the reliability of the expected credit loss model used by management in determining loss allowances on transition and assessing the completeness and accuracy of data used for the key parameters in the expected credit loss model;

TRANSITION ADJUSTMENTS AND DISCLOSURES IN RELATION TO THE CHANGE OF FINANCIAL INSTRUMENTS STANDARDS (CONTINUED)

Refer to note 2(b) to the consolidated financial statements.

The Key Audit Matter

How the matter was addressed in our audit

- obtaining journal entries relating to adjustments made on transition to the new financial instruments standards and comparing the list of classification of financial instruments, the original carrying amounts, the list of journal entries and new carrying amounts of the financial instruments to assess if the journal entries have been entirely put through the system accurately. We selected samples to assess if the accounting treatment is in accordance with IFRS 9;
- selecting samples to recalculate the new carrying amount of the financial instruments and assessing the accuracy of the opening balance at the date of initial application (i.e. 1 January 2018);
- assessing whether the relevant disclosures in relation to the change in financial instruments standards are in compliance with the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors of the Bank are responsible for the other information. The other information comprises all 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 THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Bank are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors of the Bank 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 of the Bank 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 directors of the Bank are assisted by the Audit Committee in discharging their responsibilities 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. This report is made 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAAs 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 HKSAAs, 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

From the matters communicated with 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 Leung Tat Ming.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

	Note	2018	2017 (Note)
Interest income		42,805,495	42,277,528
Interest expense		(30,387,931)	(30,201,911)
Net interest income	3	12,417,564	12,075,617
Fee and commission income		829,360	1,877,744
Fee and commission expense		(202,661)	(264,986)
Net fee and commission income	4	626,699	1,612,758
Net trading gains/(losses)	5	1,814,010	(1,121,332)
Net gains arising from investments	6	3,871,285	151,085
Net foreign exchange (losses)/gains		(2,883,141)	475,938
Other operating income	7	39,049	55,617
Operating income		15,885,466	13,249,683
Operating expenses	8	(3,945,215)	(3,617,442)
Impairment losses on assets	11	(6,401,249)	(1,403,284)
Profit before taxation		5,539,002	8,228,957
Income tax expense	12	(412,854)	(654,818)
Profit for the year		5,126,148	7,574,139
Net profit attributable to:			
Equity shareholders of the Bank		5,128,717	7,580,055
Non-controlling interests		(2,569)	(5,916)
		5,126,148	7,574,139

The notes on pages 147 to 300 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2018

(Expressed in thousands of Renminbi ("RMB"), unless otherwise stated)

	Note	2018	2017 (Note)
Profit for the year		5,126,148	7,574,139
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
– Remeasurement of net defined benefit liability		(7,801)	(608)
Items that may be reclassified subsequently to profit or loss			
– Financial assets at fair value through other comprehensive income:			
– net movement in the fair value reserve	34(d)	1,288,106	–
– net movement in the provision reserve	34(e)	(2,026)	–
– Available-for-sale financial assets:			
– net movement in the fair value reserve (recycling)	34(d)	–	(243,331)
Other comprehensive income net of tax		1,278,279	(243,939)
Total comprehensive income		6,404,427	7,330,200
Total comprehensive income attributable to:			
Equity shareholders of the Bank		6,406,996	7,336,116
Non-controlling interests		(2,569)	(5,916)
		6,404,427	7,330,200
Basic and diluted earnings per share (<i>in RMB</i>)	13	0.88	1.31

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(b).

The notes on pages 147 to 300 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

(Expressed in thousands of RMB, unless otherwise stated)

	Note	31 December 2018	31 December 2017 (Note)
Assets			
Cash and deposits with central bank	14	97,573,501	84,201,957
Deposits with banks and other financial institutions	15	29,098,503	35,414,260
Precious metals		–	274,310
Placements with banks and other financial institutions	16	2,400,914	34,327,733
Derivative financial assets	17	2,171,078	429,386
Financial assets held under resale agreements	18	2,146,696	20,339,752
Loans and advances to customers	19	368,078,039	271,782,787
Financial investments:			
Financial assets at fair value through profit or loss	20(a)	151,690,685	–
Financial assets at fair value through other comprehensive income	20(b)	59,925,100	–
Financial assets measured at amortised cost	20(c)	263,149,991	–
Available-for-sale financial assets	20(d)	–	103,729,104
Held-to-maturity investments	20(e)	–	224,536,165
Loans and receivables	20(f)	–	238,100,568
Property and equipment	22	5,260,425	5,357,249
Deferred tax assets	23	2,152,558	1,973,802
Other assets	24	1,785,450	10,150,358
Total assets		985,432,940	1,030,617,431
Liabilities			
Borrowings from central bank	25	41,718,868	48,160,000
Deposits from banks and other financial institutions	26	80,993,681	153,651,596
Placements from banks and other financial institutions	27	42,821,263	51,323,948
Financial liabilities at fair value through profit or loss		14,601,560	18,553,887
Derivative financial liabilities	17	758,626	1,268,879
Financial assets sold under repurchase agreements	28	32,309,138	75,623,265
Deposits from customers	29	524,940,548	473,580,808
Income tax payable		63,858	218,681
Debt securities issued	30	186,567,225	140,920,240
Other liabilities	31	3,628,689	15,060,471
Total liabilities		928,403,456	978,361,775

The notes on pages 147 to 300 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2018

(Expressed in thousands of RMB, unless otherwise stated)

	Note	31 December 2018	31 December 2017 (Note)
Equity			
Share capital	33	5,796,680	5,796,680
Capital reserve	34(a)	11,855,505	11,855,505
Surplus reserve	34(b)	6,110,162	5,352,502
General reserve	34(c)	12,571,882	11,034,031
Fair value reserve	34(d)	1,122,587	(335,375)
Provision reserve	34(e)	5,311	–
Deficit on remeasurement of net defined benefit liability	34(f)	(13,877)	(6,076)
Retained earnings	34(g)	19,009,618	17,984,108
		<hr/>	<hr/>
Total equity attributable to equity shareholders of the Bank		56,457,868	51,681,375
Non-controlling interests		571,616	574,281
		<hr/>	<hr/>
Total equity		57,029,484	52,255,656
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total liabilities and equity		985,432,940	1,030,617,431
		<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(b).

Approved and authorised for issue by the board of directors on 29 March 2019.

Zhang Qiyang

Chairman of Board of Directors

Sun Yongsheng

Vice President

Liu Zhiyan

Chief Financial Officer

Company chop

The notes on pages 147 to 300 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018
(Expressed in thousands of RMB, unless otherwise stated)

Note	Attributable to equity shareholders of the Bank										Total equity	
	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Provision reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total	Non-controlling interests		
Balance at 31 December 2017 (Note (i))	5,796,680	11,855,505	5,352,502	11,034,031	(335,375)	-	(6,076)	17,984,108	51,681,375	574,281	52,255,656	
Impact on initial application of IFRS 9	2	-	-	-	169,856	7,337	-	(764,294)	(587,101)	(96)	(587,197)	
Adjusted balance at 1 January 2018	5,796,680	11,855,505	5,352,502	11,034,031	(165,519)	7,337	(6,076)	17,219,814	51,094,274	574,185	51,668,459	
Profit for the year	-	-	-	-	-	-	-	5,128,717	5,128,717	(2,569)	5,126,148	
Other comprehensive income	-	-	-	-	1,288,106	(2,026)	(7,801)	-	1,278,279	-	1,278,279	
Total comprehensive income	-	-	-	-	1,288,106	(2,026)	(7,801)	5,128,717	6,406,996	(2,569)	6,404,427	
Appropriation of profit:												
- Appropriation to surplus reserve	35	-	-	757,660	-	-	-	(757,660)	-	-	-	
- Appropriation to general reserve (Note (ii))	35	-	-	1,537,851	-	-	-	(1,537,851)	-	-	-	
- Cash dividends	35	-	-	-	-	-	-	(1,043,402)	(1,043,402)	-	(1,043,402)	
Subtotal		-	-	757,660	1,537,851	-	-	(3,338,913)	(1,043,402)	-	(1,043,402)	
Balance at 31 December 2018		5,796,680	11,855,505	6,110,162	12,571,882	1,122,587	5,311	(13,877)	19,009,618	56,457,868	571,616	57,029,484

Note:

- (i) The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(b).
- (ii) The appropriation to general reserve included the appropriation made by subsidiaries with a total amount of RMB276 thousand.

The notes on pages 147 to 300 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2017

(Expressed in thousands of RMB, unless otherwise stated)

	Note	Attributable to equity shareholders of the Bank								Non-controlling interests	Total equity
		Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total		
Balance at 1 January 2017		5,796,680	11,855,505	4,666,968	9,267,100	(92,044)	(5,468)	14,305,688	45,794,429	580,197	46,374,626
Profit for the year		-	-	-	-	-	-	7,580,055	7,580,055	(5,916)	7,574,139
Other comprehensive income		-	-	-	-	(243,331)	(608)	-	(243,939)	-	(243,939)
Total comprehensive income		-	-	-	-	(243,331)	(608)	7,580,055	7,336,116	(5,916)	7,330,200
Appropriation of profit:											
- Appropriation to surplus reserve	35	-	-	685,534	-	-	-	(685,534)	-	-	-
- Appropriation to general reserve (Note (i))	35	-	-	-	1,766,931	-	-	(1,766,931)	-	-	-
- Cash dividends	35	-	-	-	-	-	-	(1,449,170)	(1,449,170)	-	(1,449,170)
Subtotal		-	-	685,534	1,766,931	-	-	(3,901,635)	(1,449,170)	-	(1,449,170)
Balance at 31 December 2017		5,796,680	11,855,505	5,352,502	11,034,031	(335,375)	(6,076)	17,984,108	51,681,375	574,281	52,255,656

Note:

- (i) The appropriation to general reserve included the appropriation made by subsidiaries with a total amount of RMB3,577 thousand.

The notes on pages 147 to 300 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018
(Expressed in thousands of RMB, unless otherwise stated)

	Note	2018	2017
Cash flows from operating activities			
Profit before tax		5,539,002	8,228,957
<i>Adjustments for:</i>			
Impairment losses on assets		6,401,249	1,403,284
Depreciation and amortisation		403,342	371,278
Unwinding of discount		(137,928)	(110,278)
Unrealised foreign exchange losses/(gains)		1,340,360	(584,048)
Net losses/(gains) on disposal of long-term assets		205	(15,067)
Dividend income		(15,730)	(38,601)
Net trading (gains)/losses of financial assets at fair value through profit or loss		(2,336,005)	1,123,275
Net gains arising from investments		(3,855,555)	(112,484)
Issuing cost of debt securities		27,900	4,000
Interest expense on debt securities issued		7,950,060	5,991,399
Interest income on financial investments		(19,971,043)	(23,529,703)
		<u>(4,654,143)</u>	<u>(7,267,988)</u>
<i>Changes in operating assets</i>			
Net increase in deposits with central bank		(8,627,427)	(6,736,279)
Net decrease in deposits and placements with bank and other financial institutions		12,984,663	20,799,847
Net increase in loans and advances to customers		(97,228,686)	(44,105,634)
Net increase in other operating assets		(4,639,697)	(1,925,986)
		<u>(97,511,147)</u>	<u>(31,968,052)</u>
<i>Changes in operating liabilities</i>			
Net decrease in borrowings from central bank		(6,500,000)	(70,640,000)
Net (decrease)/increase in deposits and placements from banks and other financial institutions		(81,647,207)	22,656,113
Net (decrease)/increase in financial assets sold under repurchase agreements		(43,347,096)	35,337,674
Net increase in deposits from customers		40,586,189	58,334,649
Income tax paid		(976,794)	(1,940,298)
Net (decrease)/increase in other operating liabilities		(1,813,228)	21,741,641
		<u>(93,698,136)</u>	<u>65,489,779</u>
Net cash flows (used in)/generated from operating activities		<u>(195,863,426)</u>	<u>26,253,739</u>

The notes on pages 147 to 300 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year ended 31 December 2018

(Expressed in thousands of RMB, unless otherwise stated)

	Note	2018	2017
Cash flows from investing activities			
Proceeds from disposal and redemption of investments		1,283,920,267	1,820,318,438
Proceeds from disposal of property and equipment and other assets		–	15,518
Payments on acquisition of investments		(1,164,445,220)	(1,902,017,795)
Payments on acquisition of property and equipment, intangible assets and other assets		(309,005)	(931,983)
Net cash flows generated from/(used in) investing activities		119,166,042	(82,615,822)
Cash flows from financing activities			
Net proceeds from new debt securities issued	36(b)	628,363,600	486,032,509
Repayment of debt securities issued	36(b)	(583,261,377)	(432,405,450)
Interest paid on debt securities issued	36(b)	(7,655,455)	(5,974,008)
Dividends paid		(1,032,704)	(1,501,127)
Net cash flows generated from financing activities		36,414,064	46,151,924
Effect of foreign exchange rate changes on cash and cash equivalents		817,622	(785,612)
Net decrease in cash and cash equivalents		(39,465,698)	(10,995,771)
Cash and cash equivalents as at 1 January		81,559,847	92,555,618
Cash and cash equivalents as at 31 December	36(a)	42,094,149	81,559,847
Net cash flows generated from operating activities include:			
Interest received		21,667,890	17,649,972
Interest paid (excluding interest expense on debt securities issued)		(23,699,113)	(22,221,861)

The notes on pages 147 to 300 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of RMB, unless otherwise stated)

1 BACKGROUND INFORMATION

Shengjing Bank Co., Ltd. (the "Bank"), which was formerly known as Shenyang City Cooperative Bank Co., Ltd., is a joint-stock commercial bank established on 10 September 1997 with the approval of the People's Bank of China (the "PBOC") of the PRC according to the notices YinFu [1996] No. 362 "Approval upon the Preparing of Shenyang City Cooperative Bank" and YinFu [1997] No.149 "Approval upon the Opening of Shenyang City Cooperative Bank".

The Bank changed its name from Shenyang City Cooperative Bank Co., Ltd. to Shenyang Commercial Bank Co., Ltd. according to LiaoyinFuZi [1998] No. 78 issued by Liaoning Branch of the PBOC on 2 June 1998 and ShenYinFu [1998] No.103 issued by Shenyang Branch of the PBOC on 29 June 1998. The Bank changed its name from Shenyang Commercial Bank Co., Ltd. to Shengjing Bank Co., Ltd. according to YinJianFu [2007] No. 68 issued by the China Banking Regulatory Commission (the former "CBRC") of the PRC on 13 February 2007.

The Bank obtained its financial institution licence No. B0264H221010001 from the former CBRC Liaoning Branch. The Bank obtained its business license No. 91210100117809938P from Shenyang Provincial Administration of Industry and Commerce. The registered office of the Bank is located at No. 109 Beizhan Road, Shenhe District, Shenyang, Liaoning Province, the PRC. In December 2014, the Bank's H-shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (Stock code: 02066). As at 31 December 2018, the share capital of the Bank is RMB5,796.68 million.

The Bank has 18 branches in Shenyang, Beijing, Shanghai, Tianjin, Changchun, Dalian, Anshan, Benxi, Jinzhou, Yingkou, Huludao, Panjin, Chaoyang, Fushun, Fuxin, Dandong, Liaoyang and Tieling as at 31 December 2018. The principal activities of the Bank and its subsidiaries (collectively referred to as the "Group") are the provision of corporate and personal deposits, loans and advances, settlement, treasury business and other banking services as approved by the former CBRC. The Bank mainly operated in mainland China, which, for the purpose of this report, excludes the Hong Kong Special Administration Region of the PRC ("Hong Kong"), the Macau Special Administration Region of the PRC ("Macau") and Taiwan.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance and basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Statement of compliance and basis of preparation (Continued)

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(b) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

The consolidated financial statements for the year ended 31 December 2018 comprise the Bank and its subsidiaries.

Unless stated otherwise, the financial statements are presented in Renminbi (RMB), rounded to the nearest thousands, which is the functional currency of the Group.

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 45.

The measurement basis used in the preparation of the financial statements is the historical cost basis, with the exception of financial assets and financial liabilities, which are measured at fair value, as stated in Note 2(f).

The consolidated financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. Impacts of the adoption of the revised IFRSs, are as follows:

IFRS 15, Revenue from contracts with customers

IFRS 15 includes a single model that is applicable to recognising revenue from contracts with customers and two methods of revenue recognition: recognising revenue at a point in time or over a period of time. The model is characterized by the process that conducting a five-step analysis based on the contract, to determine whether the revenue of a transaction can be recognised, the amount of revenue to be recognised, and the timing of revenue recognition.

IFRS 15 has introduced extensive qualitative and quantitative disclosure requirements, which aims to enable users of financial statements to understand the nature, amount, timing and uncertainty of the revenue and cash flows from contracts with customers. Entities can apply the standard with the full retrospective method, or can start to adopt the standard since the date of initial application and adjust the opening balance at that date. The disclosure in the transitional period varies according to different methods adopted by the entities.

The Group performed an assessment of the new standard and concluded that the current treatment of revenue from contracts with customers is consistent with the new principles and there is no transition impact to retained earnings.

IFRS 9, Financial instruments

IFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. IFRS 9 became effective for annual periods beginning on or after 1 January 2018, which requires the Group to make retrospective adjustments. Exercising the exemption, the Group did not restate information in the comparative period, and included the conversion and adjustment to the initial shareholders' equity on 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (Continued)

Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: financial assets measured at (1) amortised cost, (2) fair value through profit or loss and (3) fair value through other comprehensive income as follows:

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. For financial assets that are eligible to be measured at amortised cost or fair value through other comprehensive income, the Group is still able to irrevocably designate them as financial assets at fair value through profit or loss at their initial recognition. If a debt instrument is classified as fair value through other comprehensive income, then its interest income, impairments, exchange gains and losses, and gains/losses on disposal will be recognised in profit or loss.
- For equity investments, the classification is fair value through profit or loss regardless of the entity's business model. The only exception is if the equity investment is not held for trading and the entity irrevocably elects to designate that equity investment as financial assets at fair value through other comprehensive income. If an equity investment is designated as financial assets at fair value through other comprehensive income then only dividend income on that investment will be recognised in profit or loss. Gains and losses on that investment will be recognised in other comprehensive income without reclassification to profit or loss.

The classification and measurement requirements for financial liabilities under IFRS 9 are largely unchanged from IAS 39, Financial Instruments: Recognition and Measurement, except that IFRS 9 requires the fair value change of a financial liability designated at fair value through profit or loss that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (Continued)

Impairment

IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model. Under the expected credit loss (“ECL”) model, it will be unnecessary for the entity to recognise impairment losses after a loss event occurs. Instead, an entity is required to recognise and measure ECL as either 12-month ECL or lifetime ECL, depending on the asset and the facts and circumstances. This new impairment model may result in an earlier recognition of credit losses.

Hedge accounting

IFRS 9 does not fundamentally change the requirements relating to measuring and recognising the hedging ineffectiveness under IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting.

Disclosure

IFRS 9 introduces a large number of new disclosure requirements, particularly the content relating to hedge accounting, credit risk and ECL.

Transition

IFRS 9 became effective from 1 January 2018. Exercising the exemption, the Group did not restate the comparative figures in prior periods and just adjusted the net assets at the beginning of 2018 according to the impact of the data.

The following table provides the amount of Group’s financial instruments listed on 1 January 2018, according to the original classification and measurement categories of IAS 39 and the new classification and measurement categories of IFRS 9 respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (Continued)

Transition (Continued)

Financial instruments category	IAS 39		IFRS 9	
	Classification under IAS 39	Carrying amount	Classification under IFRS 9	Carrying amount
Financial assets				
Cash and deposits with central bank	Financial assets measured at amortised cost (Loans and receivables)	84,201,957	Financial assets measured at amortised cost	84,201,957
Deposits with banks and other financial institutions	Financial assets measured at amortised cost (Loans and receivables)	35,414,260	Financial assets measured at amortised cost	35,398,960
Precious metals	Financial assets at fair value through profit or loss	274,310	Financial assets at fair value through profit or loss (Standards requirement)	274,310
Derivative financial assets	Financial assets at fair value through profit or loss	429,386	Financial assets at fair value through profit or loss (Standards requirement)	429,386
Placements with banks and other financial institutions	Financial assets measured at amortised cost (Loans and receivables)	34,327,733	Financial assets measured at amortised cost	34,317,880
Financial assets held under resale agreements	Financial assets measured at amortised cost (Loans and receivables)	20,339,752	Financial assets measured at amortised cost	20,334,470
Loans and advances to customers	Financial assets measured at amortised cost (Loans and receivables)	271,782,787	Financial assets measured at amortised cost	269,898,814
Available-for-sale financial assets	Financial assets at fair value through other comprehensive income (Available-for-sale financial assets)	103,729,104	Financial assets at fair value through other comprehensive income	1,953,653
			Financial assets at fair value through profit or loss (Standards requirement)	47,993,563
Held-to-maturity investments	Financial assets measured at amortised cost (Held-to-maturity investments)	224,536,165	Financial assets at fair value through profit or loss (Standards requirement)	55,838,420
			Financial assets measured at amortised cost	224,510,091
Loans and receivables	Financial assets measured at amortised cost (Loans and receivables)	238,100,568	Financial assets measured at amortised cost	233,685,878
			Financial assets at fair value through profit or loss (Standards requirement)	4,437,123
Other assets	Financial assets measured at amortised cost (Loans and receivables)	434,447	Financial assets measured at amortised cost	434,447
Financial liabilities				
Derivative financial liabilities	Financial assets at fair value through profit or loss	1,268,879	Financial assets at fair value through profit or loss (Standards requirement)	1,268,879
Financial liabilities at fair value through profit or loss	Financial assets at fair value through profit or loss (Held for sale)	18,553,887	Financial assets at fair value through profit or loss (Standards requirement)	18,553,887
Debt securities issued	Financial assets measured at amortised cost	140,920,240	Financial assets measured at amortised cost	140,920,240

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (Continued)

Transition (Continued)

The following financial assets has been reclassified and remeasured on transition to IFRS 9 from IAS 39 on 1 January 2018.

	Carrying amount under IAS 39 as at 31 December			Carrying amount under IFRS 9 as at 1 January 2018
Note	2017	Reclassification	Remeasurement	
Financial assets				
Financial assets measured at amortised cost				
Cash and deposits with central bank				
Balance presented according to IAS 39 and IFRS 9	84,201,957	-	-	84,201,957
Deposits with banks and other financial institutions				
Balance presented according to IAS 39	35,414,260	-	-	35,414,260
Remeasurement: ECL allowance	-	-	(15,300)	(15,300)
Balance presented according to IFRS 9				35,398,960
Placements with banks and other financial institutions				
Balance presented according to IAS 39	34,327,733	-	-	34,327,733
Remeasurement: ECL allowance	-	-	(9,853)	(9,853)
Balance presented according to IFRS 9				34,317,880
Financial assets held under resale agreements				
Balance presented according to IAS 39	20,339,752	-	-	20,339,752
Remeasurement: ECL allowance	-	-	(5,282)	(5,282)
Balance presented according to IFRS 9				20,334,470
Loans and advances to customers				
Balance presented according to IAS 39	271,782,787	-	-	271,782,787
Less: transferred to financial assets at fair value through other comprehensive income (IFRS 9)	A	(1,915,480)	-	(1,915,480)
Remeasurement: ECL allowance	-	-	31,507	31,507
Balance presented according to IFRS 9				269,898,814

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (Continued)

Transition (Continued)

	Note	Carrying amount under IAS 39 as at 31 December 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at 1 January 2018
Financial assets measured at amortised cost					
Balance presented according to IAS 39		-	-	-	-
Add: transferred from held-to-maturity investments (IAS 39)	B	-	224,536,165	-	224,536,165
Remeasurement: ECL allowance		-	-	(26,074)	(26,074)
Add: transferred from loans and receivables (IAS 39)	B	-	233,600,568	-	233,600,568
Remeasurement: ECL allowance		-	-	85,310	85,310
					<u>458,195,969</u>
Balance presented according to IFRS 9					458,195,969
Held-to-maturity investments					
Balance presented according to IAS 39		224,536,165	-	-	224,536,165
Less: transferred to amortised cost (IFRS 9)	B	-	(224,536,165)	-	<u>(224,536,165)</u>
					-
Balance presented according to IFRS 9					-
Loans and receivables					
Balance presented according to IAS 39		238,100,568	-	-	238,100,568
Less: transferred to amortised cost (IFRS 9)	B	-	(233,600,568)	-	<u>(233,600,568)</u>
Less: transferred to financial assets at fair value through profit or loss (IFRS 9)	C	-	(4,500,000)	-	<u>(4,500,000)</u>
					-
Balance presented according to IFRS 9					-
Other assets					
Balance presented according to IAS 39 and IFRS 9		434,447	-	-	434,447
		<u>434,447</u>	<u>-</u>	<u>-</u>	<u>434,447</u>
Subtotal		<u>909,137,669</u>	<u>(6,415,480)</u>	<u>60,308</u>	<u>902,782,497</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (Continued)

Transition (Continued)

	Note	Carrying amount under IAS 39 as at 31 December 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at 1 January 2018
Financial assets at fair value through profit or loss					
Precious metals					
Balance presented according to IAS 39 and IFRS 9		274,310	–	–	274,310
Derivative financial assets					
Balance presented according to IAS 39 and IFRS 9		429,386	–	–	429,386
Financial assets at fair value through profit or loss					
Balance presented according to IAS 39		–	–	–	–
Add: transferred from available-for-sale financial assets (IAS 39)	D	–	55,963,890	–	55,963,890
Remeasurement: from cost to fair value		–	–	(125,470)	(125,470)
Add: transferred from loans and receivables (IAS 39)	C	–	4,500,000	–	4,500,000
Remeasurement: from amortised cost to fair value		–	–	(62,877)	(62,877)
Balance presented according to IFRS 9					60,275,543
Subtotal		703,696	60,463,890	(188,347)	60,979,239

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (Continued)

Transition (Continued)

	Note	Carrying amount under IAS 39 as at 31 December 2017	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at 1 January 2018
Financial assets at fair value through other comprehensive income					
Loans and advances to customers					
Balance presented according to IAS 39		-	-	-	-
Add: transferred from loans and advances to customers (IAS 39)	A	-	1,915,480	-	1,915,480
Remeasurement: release the allowance for impairment losses under IAS 39		-	-	40,048	40,048
Remeasurement: from amortised cost to fair value		-	-	(1,875)	(1,875)
Balance presented according to IFRS 9					1,953,653
Financial assets at fair value through other comprehensive income					
Balance presented according to IAS 39		-	-	-	-
Add: transferred from available-for-sale financial assets (IAS 39)	B	-	47,765,214	-	47,765,214
Remeasurement: fair value movement		-	-	228,349	228,349
Balance presented according to IFRS 9					47,993,563
Available-for-sale financial assets (IAS 39)					
Balance presented according to IAS 39		103,729,104	-	-	103,729,104
Less: transferred to financial assets at fair value through other comprehensive income	B	-	(47,765,214)	-	(47,765,214)
Less: transferred to financial assets at fair value through profit or loss (IFRS 9)	D	-	(55,963,890)	-	(55,963,890)
Balance presented according to IFRS 9					-
Subtotal		103,729,104	(54,048,410)	266,522	49,947,216

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (Continued)

Transition (Continued)

	Carrying amount under IAS 39 as at 31 December	Reclassification	Remeasurement	Carrying amount under IFRS 9 as at 1 January 2018
Note	2017			2018
Financial liabilities				
Financial liabilities measured at amortised cost				
Debt securities issued				
Balance presented according to IAS 39 and IFRS 9	140,920,240	-	-	140,920,240
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities				
Balance presented according to IAS 39 and IFRS 9	1,268,879	-	-	1,268,879
Financial liabilities at fair value through profit or loss				
Balance presented according to IAS 39 and IFRS 9	<u>18,553,887</u>	<u>-</u>	<u>-</u>	<u>18,553,887</u>
Subtotal	<u><u>19,822,766</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>19,822,766</u></u>

- A. Certain loans and advances to customers held by the Group originally classified as receivables were held within a business model whose objective on the transition date was to collect contractual cash flows and sell financial assets. In addition, their contractual cash flows were identified as solely payments of principal and interest on the principal amount outstanding. Therefore, these assets were classified as financial assets at fair value through other comprehensive income under IFRS 9.
- B. Certain debt instruments' classification under IAS 39 is replaced by the classification under IFRS 9 at the same measurement methods.
- (i) Certain debt instruments originally classified as receivables were classified as financial assets at amortised cost under IFRS 9.
- (ii) Certain debt instruments originally classified as held-to-maturity investments were classified as financial assets at amortised cost under IFRS 9.
- (iii) Certain debt instruments originally classified as available-for-sale financial assets were classified as financial assets at fair value through comprehensive income under IFRS 9.
- C. Certain debt instruments originally classified as receivables, their contractual cash flows were not identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets at fair value through profit or loss under IFRS 9.
- D. Certain available-for-sale financial assets, their contractual cash flows were not identified as solely payments of principal and interest on the principal outstanding. Therefore, these assets were classified as financial assets at fair value through profit or loss under IFRS 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (Continued)

Transition (Continued)

At initial application date, the ending balance of the allowance of financial assets impairment losses from IAS 39 to IFRS 9 is reconciled as follows:

	Allowance appropriated according to IAS 39/ Provisions recognised under IAS 37 As at 31 December 2017	Reclassification	Remeasurement	Allowance appropriated under IFRS 9 As at 1 January 2018
Loans and advances (IAS 39)/Financial assets measured at amortised cost (IFRS 9)				
Cash and deposits with central bank	–	–	–	–
Deposits with banks and other financial institutions	–	–	15,300	15,300
Placements with banks and other financial institutions	–	–	9,853	9,853
Financial assets held under resale agreements	–	–	5,282	5,282
Loans and advances to customers	7,730,631	–	(71,555)	7,659,076
Loans and receivables	1,413,000	–	(85,310)	1,327,690
Other assets	312,097	–	–	312,097
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Provision reserve (IFRS 9)				
Loans and advances to customers at fair value through other comprehensive income	–	–	982	982
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Held-to-maturity securities (IAS 39)/Financial assets measured at amortised cost (IFRS 9)				
Financial assets measured at amortised cost	–	–	26,074	26,074
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Provision reserve (IFRS 9)				
Financial assets at fair value through other comprehensive income	–	–	8,801	8,801
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Credit commitments and financial guarantee contracts				
Credit commitments	–	–	921,412	921,412
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income between non-controlling interests and the equity shareholders of the Bank.

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (Note 2(n)), unless the investment is classified as held for sale.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rates ruling at the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates ruling at the transaction dates.

A spot exchange rate is quoted by the PBOC, the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.

Monetary assets and liabilities denominated in foreign currencies are translated to RMB at the spot exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rates ruling at the dates the fair value is determined; the exchange differences are recognised in profit or loss, except for the exchange differences arising from the translation of non-monetary available-for-sale financial assets which are recognised in fair value reserve.

(e) Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments

(i) **Recognition and initial measurement of financial assets and financial liabilities**

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

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

(ii) **Classification and subsequent measurement of financial assets**

Classification of financial assets

The Group classifies financial assets into different categories upon initial recognition based on the business model for managing the financial assets and the contractual cash flow characteristics of financial assets:

- Financial assets measured at amortised cost, including loans and advances to customers and financial investments measured at amortised cost;
- Financial assets at fair value through other comprehensive income ("FVOCI"), including loans and advances to customers at FVOCI and financial investments at FVOCI; and
- Financial assets at fair value through profit or loss ("FVTPL").

Financial assets may not be reclassified after initial recognition unless the Group changes the business model for managing the financial assets, in which case, all affected financial assets are reclassified on the first day of the first reporting period after the business model changes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(ii) *Classification and subsequent measurement of financial assets (Continued)*

Classification of financial assets (Continued)

Financial assets not designated as FVTPL that meet the following conditions are classified as financial assets measured at amortised cost:

- The purpose of the Group's business model for managing the financial assets is to receive contractual cash flows;
- The contractual terms of the financial assets stipulate that the cash flows generated on specific dates are only for payment of the principal and the interest based on the amount of principal outstanding.

The Group classifies financial assets not designated as FVTPL that meet the following conditions as financial assets at FVOCI:

- The purpose of the Group's business model for managing the financial assets is to receive contractual cash flows and to sell the financial assets;
- The contractual terms of the financial assets stipulate that the cash flows generated on specific dates are only for payment of the principal and the interest based on the amount of principal outstanding.

For equity investment not held for trading, the Group may irrevocably designate it as financial asset at FVOCI upon initial recognition. The designation is made on an individual basis and the investment is in line with the definition of the equity instrument from the issuer's perspective.

Except for the above-mentioned financial assets that are measured at amortised cost and at FVOCI, the Group classifies all other financial assets into financial assets at FVTPL. At the time of initial recognition, if the accounting mismatch can be eliminated or significantly reduced, the Group can irrevocably designate financial assets that should be measured at amortised cost or FVOCI as financial assets at FVTPL.

The business model for managing financial assets refers to how the Group manages financial assets to generate cash flows. The business model determines whether the sources of cash flows for financial assets managed by the Group is contractual cash flows, the sale of financial assets or both. The Group determines the business model for managing financial assets based on objective facts and specific business objectives for the management of financial assets as determined by key management personnel.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(ii) *Classification and subsequent measurement of financial assets (Continued)*

Classification of financial assets (Continued)

The Group assesses the contractual cash flow characteristics of financial assets to determine whether the contractual cash flows generated by the relevant financial assets on specific dates are solely for payment of the principal and the interest based on the amount of principal outstanding. Of which, the principal is the fair value of the financial assets at initial recognition; the interest includes the time value of money, the credit risk associated with the outstanding principal amount for a specific period, and the consideration of other basic borrowing risks, costs and profits. In addition, the Group assesses the contractual terms that may result in a change in the time distribution or amount of contractual cash flows generated by the financial assets to determine whether they meet the requirements of the above contractual cash flow characteristics.

Subsequent measurement of financial assets

- Financial assets at FVTPL

Subsequent to initial recognition, the financial assets are measured at fair value, and the resulting gains or losses (including interest and dividend income) are included in profit or loss, unless the financial asset is part of a hedging relationship.

- Financial assets measured at amortised cost

Subsequent to initial recognition, the financial assets are measured at amortised cost using the effective interest method. Gains or losses arising from financial assets that are measured at amortised cost and are not a component of any hedges are recognised in profit or loss at the time of derecognition and amortisation using the effective interest method or recognition of impairment.

- Financial assets at FVOCI

Subsequent to initial recognition, the financial assets are measured at fair value. Interest calculated using the effective interest method, impairment losses or gains and exchange gains or losses are recognised in profit or loss, and other gains or losses are included in other comprehensive income. At the time of derecognition, the cumulative gains or losses previously recognised in other comprehensive income are transferred to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(ii) *Classification and subsequent measurement of financial assets (Continued)*

Subsequent measurement of financial assets (Continued)

- Equity investments at FVOCI

Subsequent to initial recognition, the financial assets are measured at fair value. Dividend income is recognised in profit or loss; other gains or losses are recognised in other comprehensive income. At the time of derecognition, the cumulative gains or losses previously included in other comprehensive income are transferred to retained earnings.

(iii) *Classification and subsequent measurement of financial liabilities*

The Group classifies financial liabilities into financial liabilities at FVTPL, financial guarantee contract liabilities, and financial liabilities carried at amortised cost.

- *Financial liabilities at FVTPL*

The financial liabilities includes trading financial liabilities and financial liabilities designated at FVTPL.

Subsequent to initial recognition, the financial liabilities are measured at fair value. Any resulting gains or losses (including interest expenses), unless related to hedge accounting, are recognised in profit or loss.

- *Financial guarantee contract liabilities*

Financial guarantee contracts refer to contracts that require the Group to make specified payments to reimburse the contract holder for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the original or revised terms of a debt instrument.

The financial guarantee contract liabilities is subsequently measured at the higher of the amount of a provision determined in accordance with the principles for impairment of financial instruments and the amount initially recognised less accumulated amortisation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(iii) *Classification and subsequent measurement of financial liabilities (Continued)*

- *Financial liabilities measured at amortised cost*

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

(iv) *Derivative financial instruments*

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value through profit or loss.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognised directly in profit or loss.

For less complex derivative products, the fair values are principally determined by valuation models which are commonly used by market participants. Inputs to valuation models are determined from observable market data wherever possible, including foreign exchange spot and forward rates and interest rate yield curves. For more complex derivative products, the fair values are mainly determined by quoted prices from dealers.

(v) *Impairment*

The Group recognises provision for expected credit loss on:

- Financial assets measured at amortised cost;
- Debt instruments at FVOCI; and
- Credit commitments.

Other financial assets measured at fair value, including financial assets at FVTPL, equity investments designated at FVOCI and derivative financial assets, are not subject to the expected credit loss assessment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(v) Impairment (Continued)

Measurement of ECLs

Expected credit loss is a weighted average of credit losses on financial instruments weighted at the risk of default. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period (including extension options) over which the Group is exposed to credit risk.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the balance sheet date (or a shorter period if the expected life of the instrument is less than 12 months).

ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the balance sheet date.

The Group's measurement of expected credit losses is described in Note 39(a).

Presentation of provision for ECLs

ECLs are remeasured at each balance sheet date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. For financial assets measured at amortised cost, provision is offset against their carrying amounts in the balance sheet. The Group recognises provision for debt instruments at FVOCI in other comprehensive income and does not deduct the carrying amount of the financial assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(v) Impairment (Continued)

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. A write-off constitutes a derecognition event. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(vi) Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the following conditions are met:

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

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

- The carrying amount of the financial asset transferred measured at the date of derecognition;
- The sum of the consideration received from the transfer and, when the transferred financial asset is a debt investment at FVOCI, any cumulative gain or loss that has been recognised directly in other comprehensive income for the part derecognised.

The Group derecognises a financial liability (or part of it) only when its contractual obligation (or part of it) is discharged.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

(vii) Offsetting

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

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

(viii) For accounting policies of financial instruments applicable to the year ended 31 December 2017, refer to 2017 annual financial statements.

(g) Financial assets held under resale and repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statements of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statements of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Interest earned on resale agreements and interest incurred on repurchase agreements are recognised respectively as interest income and interest expense over the life of each agreement using the effective interest method.

(h) Fair value measurement

Unless otherwise stated, the Group measure the fair value based on below principles:

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value, the Group takes into account the characteristics of the particular asset or liability (including the condition and location of the asset and restrictions, if any, on the sale or use of the asset) that market participants would consider when pricing the asset or liability at the measurement date. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other information are available to measure fair value. Three valuation techniques mainly include the market approach, the income approach and the cost approach.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Associates

An associate is an entity in which the Group or Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements of the Group under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 2(n)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the period are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in other comprehensive income of the Group. The Group's interest in associate is included in the consolidated financial statements from the date that significant influence commences until the date that significant influence ends.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 2(f)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Property and equipment

Property and equipment are assets held by the Group for operation and administration purposes with useful lives over one year.

Property and equipment are stated in the statements of financial position at cost less accumulated depreciation and impairment loss (Note 2(n)). Construction in progress ("CIP") is stated in the statements of financial position at cost less impairment loss (Note 2(n)).

The cost of a purchased property and equipment asset comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress. No depreciation is provided against construction in progress.

Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Group in different patterns, each part is depreciated separately.

The subsequent costs including the cost of replacing part of an item of property and equipment are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Property and equipment (Continued)

Property and equipment are depreciated using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives, residual values and depreciation rates of each class of property and equipment are as follows:

	Estimated useful lives	Estimated net residual value	Depreciation rate
Premises	20–30 years	3%	4.85%–3.23%
Office equipment	5 years	3%	19.40%
Leasehold improvement	5–10 years	0%	20.00%–10.00%
Others	3–5 years	3%	32.33%–19.40%

(k) Lease

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred or not. An operating lease is a lease other than a finance lease.

(i) Operating lease charges

Lease payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent lease payments are recognised as expenses in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(ii) Assets acquired under finance lease

Where the Group is a lessee under finance leases, an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease, is included in property and equipment as a lease asset. An amount equal to the minimum lease payments is included in liability. The difference between the recorded amount of the leased asset and the recorded amount of the liability shall be accounted for as unrecognised finance charge. The Group recognises financial charge for the current period using the effective interest method. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(j). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(n). Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Intangible assets

The intangible assets of the Group have finite useful lives. The intangible assets are stated at cost less accumulated amortisation and impairment losses (Note 2(n)). The cost of intangible assets less residual value and impairment losses is amortised on a straight-line basis over the estimated useful lives.

The respective amortisation periods for intangible assets are as follows:

Software	5–10 years
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(m) Repossessed assets

Repossessed assets are initially recognised at fair value, and are subsequently measured at the lower of the carrying value and net recoverable amount. If the recoverable amount is lower than the carrying value of the repossessed assets, the assets are written down to the recoverable amount.

(n) Provision for impairment losses on non-financial assets

The carrying amounts of the following assets are reviewed at the end of the reporting period based on the internal and external sources of information to determine whether there is any indication of impairment:

- property and equipment
- pre-paid interests in leasehold land classified as being held under an operating lease
- intangible assets
- investments in subsidiaries and associates

If any indication exists that an asset may be impaired, the recoverable amount of the asset is estimated.

A Cash-Generating Unit (the “CGU”) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups. A CGU is composed of assets directly relating to cash-generation. Identification of a CGU is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups. In identifying an asset group, the Group also considers how management monitors the Group’s operations and how management makes decisions about continuing or disposing of the Group’s assets.

The recoverable amount of an asset or CGU, or a group of CGUs (hereinafter called “asset”) is the greater of its fair value less costs of disposal and value in use. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset; if it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the assets belongs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Provision for impairment losses on non-financial assets (Continued)

An asset's fair value less costs of disposal is the amount determined by the price of a sale agreement in an arm's length transaction, less the costs that are directly attributable to the disposal of the asset. The value in use of an asset is determined by discounting the future cash flows, estimated to be derived from continuing use of the asset and from its ultimate disposal, to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its recoverable amount. A provision for an impairment loss of the asset is recognised accordingly. Impairment losses related to an asset group or a set of asset groups are allocated first to reduce the carrying amount of any goodwill allocated to the asset group or set of asset groups and then, to reduce the carrying amount of the other assets in the asset group or set of asset groups on a pro rata basis. However, the carrying amount of an impaired asset will not be reduced below the highest of its individual fair value less costs of disposal (if measurable), value in use (if measurable) and zero.

An impairment loss in respect of goodwill is not reversed. If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

(o) Employee benefits

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The defined contribution retirement plans of the Group include the social pension schemes, unemployment insurance and an annuity plan.

Social pension schemes

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for employees arranged by local government labor and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amounts stipulated by the government. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local government labor and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Employee benefits (Continued)

(i) **Short term employee benefits and contributions to defined contribution retirement plans (Continued)**

Annuity plan

The Group provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to its employees' total salaries and bonuses, which are charged to profit or loss when the contributions are made.

Housing fund and other social insurances

The Group has joined social security contributions schemes for employees pursuant to the relevant laws and regulations of the PRC. These schemes include a housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances schemes at the applicable rates based on the amounts stipulated by the relevant government authorities. The contributions are charged to profit or loss on an accrual basis.

(ii) **Supplementary retirement benefits**

Early retirement plan

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire early for the period from the date of early retirement to the regulated retirement date. The benefit is discounted to determine the present value based on certain assumptions. The calculation is performed by a qualified actuary using the projected unit credit method. Differences arising from changes in assumptions and estimates of the present value of the liabilities are recognised in profit or loss when incurred.

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees. The Group's obligations in respect of the supplementary retirement plan are calculated by estimating the present value of the total amount of future benefits that the Group is committed to pay to the employees after their retirement. The calculation is performed by a qualified actuary using the projected unit credit method. Such obligations were discounted at the interest yield of government bonds with similar duration at the reporting date. The related service cost and net interest from the retirement plan are recognised in profit or loss, and the actuarial gains and losses arising from remeasurements are recognised in other comprehensive income.

Early retirement plan and supplementary retirement plan thereafter collectively referred to as "supplementary retirement benefits".

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items that are recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable calculated at the applicable tax rate on the taxable income for the period, and any adjustment to tax payable in respect of previous years.

At the end of the reporting period, current tax assets and liabilities are offset if the taxable entity has a legally enforceable right to set off them and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, which include the deductible losses and tax credits carried forward to subsequent periods. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be used.

Deferred tax is not recognised for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or tax loss). Deferred tax is not recognised for taxable temporary differences arising from the initial recognition of goodwill.

At the end of the reporting period, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities using tax rates that are expected to be applied in the period when the asset is realised or the liability is settled in accordance with tax laws.

The carrying amount of a deferred tax asset is reviewed at the end of the reporting period. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax (Continued)

At the end of the reporting period, deferred tax assets and liabilities are offset if all the following conditions are met:

- the taxable entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- they relate to income taxes levied by the same tax authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities, simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial Guarantees

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

The Group used the expected credit loss model to measure losses incurred because a specified debtor fails to make payment when due, and included them in provisions. Refer to Note 2(f)(v) for details of the expected credit loss model.

(ii) Other provisions and contingent liabilities

A provision is recognised for an obligation related to a contingency if the Group has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Fiduciary activities

The Group acts in fiduciary activities as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

The Group enters into entrusted loan agreements with customers, whereby the customers provide funding (the “entrusted funds”) to the Group, and the Group grants loans to third parties (the “entrusted loans”) under instructions of the customers. As the Group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, the entrusted loans and funds are recorded as off-balance sheet items at their principal amount. No provision for impairment loss is made for entrusted loans.

(s) Income recognition

Revenue is the gross inflow of economic benefits arising in the course of the Group’s ordinary activities when the inflows result in increase in shareholders’ equity, other than increase relating to contributions from shareholders.

For performance obligations being satisfied, revenue is recognised by the Group when the customer obtains control of the relevant goods or services.

When one of the following conditions are met, the Group perform its performance obligations over time, and otherwise, at a point in time:

- The customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- The Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- The Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

For performance obligations performed over time, the Group recognises revenue over time according to the performance progress. When the performance progress cannot be determined, The Group is expected to be reimbursed for the costs already incurred and recognise the revenue based on the costs already incurred until the performance progress can be reasonably determined.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income recognition (Continued)

For performance obligations performed at a point in time, the Group recognises revenue at the point when the customer obtains control of the promised good or service. When judging whether the customer obtains control of the promised good or service, the Group should consider the following indications:

- The Group has a present right to payment for the good or service;
- The Group has transferred physical possession of the good to the customer;
- The Group has transferred legal title or the significant risks and rewards of ownership of the good to the customer;
- The customer has accepted the good or service.

The specific accounting policies related to the revenue of Group's principal activities are described below

(i) Interest income

Interest income for financial assets is recognised in profit or loss as it is incurred, based on the time for alienation of right to use capital and effective interest rates. Interest income includes the amortisation of any discount or premium or differences between the initial carrying amount of an interest-bearing asset and its amount at maturity calculated using the effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the reporting period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

(ii) Fee and commission income

Fee and commission income is recognised in profit or loss when the corresponding service is provided.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without making a loan, the fee is recognised as fee and commission income upon its expiry.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Income recognition (Continued)

(iii) *Other income*

Other income is recognised on an accrual basis.

(iv) *Government grants*

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions associated with the grant. Government grants related to an asset are initially recognised as deferred income at fair value and then recognised in profit or loss as other income on a straight-line basis over the useful life of the asset. Government grants that compensate the Group for expenses incurred are recognised in profit or loss in the periods in which the expenses are recognised.

(t) Expenses recognition

(i) *Interest expenses*

Interest expenses from financial liabilities are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

(ii) *Other expenses*

Other expenses are recognised on an accrual basis.

(u) Dividends

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the end of the reporting period are not recognised as a liability at the end of the reporting period but disclosed separately in the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Related parties

- (a) A person, or a close member of that person's family, is related to the group if 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 the group's parent.

- (b) An entity is related to the group if any of the following conditions applies:
 - (i) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities 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);
 - (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 group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) 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 NET INTEREST INCOME

	2018	2017
Interest income arising from		
Deposits with central bank	1,139,094	918,974
Deposits and placements with banks and other financial institutions	1,970,051	2,296,403
Loans and advances to customers		
– Corporate loans and advances	18,405,341	14,501,129
– Personal loans and advances	933,578	499,616
– Discounted bills	271,586	258,844
Financial assets held under resale agreements	114,802	272,859
Financial investments	19,971,043	23,529,703
Subtotal	42,805,495	42,277,528
Interest expense arising from		
Borrowings from central bank	(435,623)	(2,311,544)
Deposits and placements from banks and other financial institutions	(5,369,550)	(4,351,487)
Deposits from customers	(14,513,132)	(15,898,021)
Financial assets sold under repurchase agreements	(2,119,566)	(1,649,460)
Debt securities issued	(7,950,060)	(5,991,399)
Subtotal	(30,387,931)	(30,201,911)
Net interest income	12,417,564	12,075,617

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 NET INTEREST INCOME (CONTINUED)

Notes:

- (a) Interest expense on financial liabilities with maturity over five years mainly included the interest expense on deposits from customers and debt securities issued.
- (b) Total interest income arising from financial assets that are not at fair value through profit or loss for the year ended 31 December 2018 amounted to RMB42,767 million (2017: RMB42,145 million).

Total interest expense arising from financial liabilities that are not at fair value through profit or loss for the year ended 31 December 2018 amounted to RMB30,388 million (2017: RMB30,202 million).

4 NET FEE AND COMMISSION INCOME

	2018	2017
Fee and commission income		
Agency and custody services fees	586,919	1,679,156
Settlement and clearing services fees	194,069	155,666
Bank card services fees	48,372	42,922
	<hr/>	<hr/>
Subtotal	829,360	1,877,744
Fee and commission expense	<hr/>	<hr/>
	(202,661)	(264,986)
Net fee and commission income	<hr/>	<hr/>
	626,699	1,612,758

5 NET TRADING GAINS/(LOSSES)

Net trading gains/(losses) include gains/(losses) arising from the buying and selling of, and changes in the fair value of debt securities held for trading purpose and derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

6 NET GAINS ARISING FROM INVESTMENTS

	2018	2017
Net gains on financial assets at fair value through profit or loss	2,326,114	–
Net gains on disposal of financial assets at fair value through other comprehensive income	404,028	–
Net gains on disposal of financial assets measured at amortised cost	1,125,413	–
Dividends from designated as financial assets at fair value through other comprehensive income	15,730	–
Net gains on disposal of available-for-sale financial assets	–	123,302
Dividends from available-for-sale equity investments	–	38,601
Net losses on disposal of held-to-maturity investments	–	(10,818)
	<hr/>	<hr/>
Total	3,871,285	151,085

7 OTHER OPERATING INCOME

	2018	2017
Government grants	15,142	11,060
Rental income	11,074	7,083
Handling charge income	1,403	1,519
Net (losses)/gains on disposal of property and equipment	(205)	15,067
Others	11,635	20,888
	<hr/>	<hr/>
Total	39,049	55,617

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

8 OPERATING EXPENSES

	2018	2017
Staff costs		
–Salaries, bonuses and allowances	1,516,815	1,541,573
–Pension and annuity	240,705	210,036
–Other social insurance	142,860	131,839
–Housing allowances	92,235	83,604
–Supplementary retirement benefits	4,743	973
–Others	97,927	99,367
	<hr/>	<hr/>
Subtotal	2,095,285	2,067,392
Depreciation and amortisation	403,342	371,278
Rental and property management expenses	256,521	246,688
Office expenses	274,804	296,697
Tax and surcharges	111,757	143,641
Other general and administrative expenses (Note(a))	803,506	491,746
	<hr/>	<hr/>
Total	<u>3,945,215</u>	<u>3,617,442</u>

Note:

- (a) Auditor's remunerations were RMB5.50 million for the year ended 31 December 2018 (2017: RMB5.00 million).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Name	Fees	Salaries	2018		Total emoluments before tax	Deferred payment	Actual amount of remuneration paid (pre-tax)
			Discretionary bonuses	Contributions to social pension schemes			
Executive directors							
Zhang Qiyang (Note (a))	-	2,229	1,230	165	3,624	378	3,246
Zhang Qiang (Note (b))	-	1,676	1,666	163	3,505	109	3,396
Wang Yigong	-	1,200	2,127	165	3,492	378	3,114
Wu Gang	-	1,200	2,117	178	3,495	252	3,243
Non-executive directors							
Li Yuguo	19	-	-	-	19	-	19
Qiu Huofa (Note (a))	43	-	-	-	43	-	43
Li Jianwei	38	-	-	-	38	-	38
Zhao Weiqing	43	-	-	-	43	-	43
Liu Yanxue (Note (b))	47	2,228	1,169	165	3,609	-	3,609
YUEN Wing Shing (Note (b))	30	-	-	-	30	-	30
Independent non-executive directors							
Ni Guoju (Note (b))	-	216	38	-	254	-	254
KEUNG Chak (Note (b))	-	216	38	-	254	-	254
TAI Kwok Leung (Note (b))	-	216	38	-	254	-	254
Xing Tiancai (Note (b))	-	216	38	-	254	-	254
Li Jinyi (Note (b))	-	216	38	-	254	-	254
Supervisors							
Yang Liya (Note (c))	-	617	1,042	60	1,719	69	1,650
Wang Lijun (Note (c))	-	97	253	-	350	-	350
Shi Yang	-	1,067	2,009	165	3,241	203	3,038
Pan Wenge	36	-	-	-	36	-	36
Liu Huidi (Note (b))	18	-	-	-	18	-	18
Yu Haobo (Note (b))	30	-	-	-	30	-	30
Ba Junyu (Note (b))	-	216	94	-	310	-	310
Sun Hang (Note (b))	-	216	94	-	310	-	310
Dai Qiang (Note (b))	-	216	31	-	247	-	247
Total	304	12,042	12,022	1,061	25,429	1,389	24,040

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Name	Fees	Salaries	2017		Total emoluments before tax	Deferred payment	Actual amount of remuneration paid (pre-tax)
			Discretionary bonuses	Contributions to social pension schemes			
Executive directors							
Zhang Qiyang (Note (a))	-	1,672	844	105	2,621	378	2,243
Wang Chunsheng (Note (b))	-	1,785	1,586	140	3,511	396	3,115
Wang Yigong	-	1,200	2,338	140	3,678	252	3,426
Wu Gang	-	1,200	2,342	140	3,682	252	3,430
Sun Yongsheng (Note (b))	-	1,201	2,334	140	3,675	252	3,423
Non-executive directors							
Li Yuguo	19	-	-	-	19	-	19
Qiu Huofa (Note (a))	19	-	-	-	19	-	19
Li Jianwei	37	-	-	-	37	-	37
Zhao Weiqing	19	-	-	-	19	-	19
Liu Xinfu (Note (b))	19	-	-	-	19	-	19
Yang Yuhua (Note (d))	-	-	-	-	-	-	-
Independent non-executive directors							
Yu Yongshun (Note (b))	-	120	81	-	201	-	201
Lau Chi Pang (Note (b))	-	120	75	-	195	-	195
Ba Junyu (Note (b))	-	120	89	-	209	-	209
Sun Hang (Note (b))	-	120	95	-	215	-	215
Ding Jiming (Note (b))	-	120	81	-	201	-	201
Supervisors							
Yang Lin (Note (c))	-	1,785	1,795	140	3,720	396	3,324
Han Xuefeng (Note (c))	-	1,067	1,925	140	3,132	108	3,024
Shi Yang	-	1,067	2,211	141	3,419	180	3,239
Chen Zhaogui (Note (b))	19	-	-	-	19	-	19
Pan Wenge	24	-	-	-	24	-	24
Sun Yi (Note (b))	19	-	-	-	19	-	19
Huang Lianguai (Note (b))	-	120	63	-	183	-	183
Zhou Zheren (Note (b))	-	120	63	-	183	-	183
Wen Zhaoye (Note (b))	-	120	69	-	189	-	189
Total	175	11,937	15,991	1,086	29,189	2,214	26,975

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

9 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (CONTINUED)

Notes:

- (a) At the Bank's 2016 Shareholders' Meeting on 16 May 2017, Zhang Qiyang was elected as executive director of the Bank, Qiu Huofa was elected as non-executive director of the Bank.
- (b) At the Bank's 2018 first Extraordinary Shareholders' Meeting on 28 February 2018, Zhang Qiang was elected as executive director of the Bank, Wang Chunsheng and Sun Yongsheng were no longer executive directors of the Bank; Liu Yanxue and YUEN Wing Shing were elected as non-executive directors of the Bank, Liu Xinfu was no longer non-executive director of the Bank; Ni Guojun, KEUNG Chak, TAI Kwok Leung, Xing Tiancai and Li Jinyi were elected as independent non-executive directors of the Bank, Yu Yongshun, Lau Chi Pang, Ba Junyu, Sun Hang and Ding Jiming were no longer independent non-executive directors of the Bank; Liu Huidi, Yu Haobo, Ba Junyu, Sun Hang and Dai Qiang were elected as supervisors of the Bank, Chen Zhaogui, Sun Yi, Huang Lianguai, Zhou Zheren and Wen Zhaoye were no longer supervisors of the Bank.
- (c) At 15 August 2018, Yang Liya and Wang Lijun were elected as supervisors of the Bank, Yang Lin and Han Xuefeng were no longer supervisors of the Bank.
- (d) At 2 March 2017, Yang Yuhua resigned as non-executive director of the Bank.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the year ended 31 December 2018, the five individuals with highest emoluments included 2 (2017: nil) directors of the Bank, whose emoluments are disclosed in Note 9. The emoluments for the 3 (2017: 5) non-director highest paid individuals for the year ended 31 December 2018 are as follows:

	2018	2017
Salaries and other emoluments	2,785	3,481
Discretionary bonuses	15,918	26,997
Contributions to pension schemes	495	720
Total	19,198	31,198

The individuals whose emoluments before individual income tax are within the following bands are set out below:

	2018	2017
RMB4,500,001 – 5,000,000	1	–
RMB5,000,001 – 5,500,000	–	2
RMB5,500,001 – 6,000,000	1	–
RMB6,500,001 – 7,000,000	–	2
RMB7,000,001 – 7,500,000	–	1
RMB8,500,001 – 9,000,000	1	–
Total	3	5

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

11 IMPAIRMENT LOSSES ON ASSETS

	2018	2017
Deposits and placements with banks and other financial institutions	(15,650)	–
Financial assets held under resale agreements	(4,901)	–
Loans and advances to customers	5,121,577	1,312,612
Financial investments	1,040,801	134,000
Credit commitment	(210,458)	–
Others	469,880	(43,328)
Total	6,401,249	1,403,284

12 INCOME TAX EXPENSE

(a) Income tax for the year:

	Note	2018	2017
Current tax		821,971	1,136,182
Deferred tax	23(b)	(409,117)	(481,364)
Total		412,854	654,818

(b) Reconciliations between income tax and accounting profit are as follows:

	Note	2018	2017
Profit before taxation		5,539,002	8,228,957
Statutory tax rate		25%	25%
Income tax calculated at statutory tax rate		1,384,751	2,057,239
Non-deductible expenses			
– Entertainment expenses		3,352	3,948
– Others		2,601	5,670
		5,953	9,618
Non-taxable income	12(b)(i)	(977,850)	(1,412,039)
Income tax		412,854	654,818

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

12 INCOME TAX EXPENSE (CONTINUED)

(b) Reconciliations between income tax and accounting profit are as follows: (Continued)

Note:

- (i) Non-taxable income consists of interest income from the PRC government bonds, public funds and dividends from domestic companies, which are exempted from income tax under the PRC tax regulations.

13 BASIC AND DILUTED EARNINGS PER SHARE

	2018	2017
Net profit attributable to equity shareholders of the Bank	5,128,717	7,580,055
Weighted average number of ordinary shares (in thousands)	5,796,680	5,796,680
Basic and diluted earnings per share attributable to equity shareholders of the Bank (<i>in RMB</i>)	0.88	1.31

There is no difference between basic and diluted earnings per share as there were no potentially dilutive shares outstanding during the year.

(a) Weighted average number of ordinary shares (in thousands)

	2018	2017
Number of ordinary shares as at 1 January	5,796,680	5,796,680
Increase in weighted average number of ordinary shares	—	—
Weighted average number of ordinary shares	<u>5,796,680</u>	<u>5,796,680</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

14 CASH AND DEPOSITS WITH CENTRAL BANK

	Note	31 December 2018	31 December 2017
Cash on hand		702,533	809,636
Deposits with central bank			
– Statutory deposit reserves	14(a)	64,812,844	55,896,497
– Surplus deposit reserves	14(b)	31,572,455	26,758,129
– Foreign currency risk reserves	14(c)	195,327	631,823
– Fiscal deposits		253,448	105,872
Subtotal		96,834,074	83,392,321
Add: interest receivable		36,894	–
Total		97,573,501	84,201,957

- (a) The Bank places statutory deposit reserves with the PBOC in accordance with relevant regulations. As at the end of the reporting period, the statutory deposit reserve ratios applicable to the Bank were as follows:

	31 December 2018	31 December 2017
Reserve ratio for RMB deposits	12.5%	13.5%
Reserve ratio for foreign currency deposits	5%	5%

The six rural banking subsidiaries of the Bank are required to place statutory RMB deposits reserve at rates determined by the PBOC.

The statutory deposit reserves are not available for the Group's daily business.

- (b) The surplus deposit reserves are maintained with the PBOC for the purpose of clearing.
- (c) The foreign currency risk reserves are maintained with the PBOC in accordance with the related notice issued by the PBOC on 31 August 2015. The reserves are payable on a monthly basis at 20% of the total contract amount of customers driven forward transactions in the previous month. Such foreign currency risk reserves are non-interest bearing and will be repayable in 12 months.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

15 DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by type and location of counterparty

	31 December 2018	31 December 2017
Deposits in mainland China		
– Banks	27,162,902	32,672,389
– Other financial institutions	4,519	4,505
Deposits outside mainland China		
– Banks	1,210,880	2,737,366
Subtotal	28,378,301	35,414,260
Add: interest receivable	728,945	–
Less: provision for impairment losses	(8,743)	–
Total	29,098,503	35,414,260

(b) Movements of provision for impairment losses

	31 December 2018
As at 1 January 2018 (Note 2(b))	15,300
Net release for the year	(6,557)
As at 31 December 2018	8,743

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

16 PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

(a) Analysed by type and location of counterparty

	31 December 2018	31 December 2017
Placements in mainland China		
– Banks	–	31,127,733
– Other financial institutions	2,400,000	3,200,000
Subtotal	2,400,000	34,327,733
Add: interest receivable	1,674	–
Less: provision for impairment losses	(760)	–
Total	2,400,914	34,327,733

(b) Movements of provision for impairment losses

	31 December 2018
As at 1 January 2018 (Note 2(b))	9,853
Net release for the year	(9,093)
As at 31 December 2018	760

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

17 DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial instrument, the value of which changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other similar variables. The Group uses derivative financial instruments mainly including forwards and swaps.

The notional amount of a derivative represents the amount of an underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Group but does not reflect the risk.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in any orderly transaction between market participants at measured date.

(a) Analysed by nature of contract

	31 December 2018		
	Notional amount	Fair value Assets	Liabilities
Interest rate swaps	220,090,000	433,617	(476,400)
Currency swaps	109,317,896	1,223,944	(275,805)
Currency options	71,079,507	–	(4,954)
Precious metal derivatives	15,053,139	489,588	–
Foreign exchange forwards	1,008,753	23,929	(1,467)
Total	<u>416,549,295</u>	<u>2,171,078</u>	<u>(758,626)</u>

	31 December 2017		
	Notional amount	Fair value Assets	Liabilities
Currency swaps	123,998,639	278,127	(1,123,073)
Precious metal derivatives	19,267,156	125,169	(119,369)
Interest rate swaps	6,500,000	1,550	(7,460)
Foreign exchange forwards	732,773	24,540	(18,977)
Total	<u>150,498,568</u>	<u>429,386</u>	<u>(1,268,879)</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

17 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(b) Analysed by credit risk-weighted amount

	31 December 2018	31 December 2017
Currency swaps	273,295	309,997
Foreign exchange options	177,698	–
Precious metal derivatives	37,633	48,168
Foreign exchange forwards	10,088	5,266
Interest rate swaps	–	16,250
Total	<u>498,714</u>	<u>379,681</u>

The credit risk-weighted amount represents the counterparty credit risk associated with derivative transactions and is calculated with reference to the guidelines issued by the former CBRC.

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by type and location of counterparty

	31 December 2018	31 December 2017
In mainland China		
– Banks	1,500,000	20,339,752
– Other financial institutions	<u>645,860</u>	<u>–</u>
Subtotal	2,145,860	20,339,752
Add: interest receivable	1,217	–
Less: provision for impairment losses	<u>(381)</u>	<u>–</u>
Total	<u>2,146,696</u>	<u>20,339,752</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

18 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (CONTINUED)

(b) Analysed by type of security held

	31 December 2018	31 December 2017
Debt securities held under resale agreements	2,145,860	20,339,752
Add: interest receivable	1,217	–
Less: provision for impairment losses	(381)	–
Total	<u>2,146,696</u>	<u>20,339,752</u>

(c) Movements of provision for impairment losses

	31 December 2018
As at 1 January 2018 (Note 2(b))	5,282
Net release for the year	<u>(4,901)</u>
As at 31 December 2018	<u>381</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Analysed by nature

	31 December 2018
Measured at amortised cost:	
Corporate loans and advances	347,511,078
Personal loans and advances	
– Residential mortgage	20,822,817
– Personal consumption loans	3,075,729
– Personal business loans	732,873
– Credit cards	799,698
– Others	21,109
Subtotal	25,452,226
Gross loans and advances to customers measured at amortised cost	372,963,304
Measured at fair value through other comprehensive income:	
– Corporate loans and advances	36,553
– Discounted bills	3,597,503
Gross loans and advances to customers measured at fair value through other comprehensive income	3,634,056
Gross loans and advances to customers	376,597,360
Add: interest receivable	1,839,265
Less: provision for impairment losses on loans and advances to customers measured at amortised cost	(10,358,586)
Net loans and advances to customers	368,078,039

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(a) Analysed by nature (Continued)

	31 December 2017
Corporate loans and advances	262,549,690
Personal loans and advances	
– Residential mortgage	9,227,270
– Personal consumption loans	3,988,457
– Personal business loans	1,062,927
– Credit cards	674,173
– Others	55,372
Subtotal	15,008,199
Discounted bills	1,955,529
Gross loans and advances to customers	279,513,418
Less: Provision for impairment losses	
– Individually assessed	(2,111,924)
– Collectively assessed	(5,618,707)
Total provision for impairment losses	(7,730,631)
Net loans and advances to customers	271,782,787

As at 31 December 2018, the Group's provision amount for loans and advances to customers measured at fair value through other comprehensive income is RMB1.63 million (31 December 2017: nil), as detailed in Note 19(f).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by economic sector

	31 December 2018		
	Amount	Percentage	Loans and advances secured by collaterals
Wholesale and retail trade	173,690,903	46%	76,602,639
Renting and business activities	43,515,629	12%	26,486,108
Manufacturing	40,591,373	11%	12,568,637
Real estate	28,954,810	8%	24,502,540
Construction	19,190,327	4%	6,541,088
Accommodation and catering	6,053,565	2%	5,723,185
Production and supply of electric power, gas and water	5,245,370	1%	1,033,527
Transportation, storage and postal services	3,895,292	1%	1,043,478
Mining	2,864,996	1%	505,997
Agriculture, forestry, animal husbandry and fishery	2,568,981	1%	383,481
Culture, sports and entertainment	1,893,934	1%	234,100
Household and other services	1,352,600	0%	109,000
Others	17,729,851	4%	9,340,764
Subtotal of corporate loans and advances	347,547,631	92%	165,074,544
Personal loans and advances	25,452,226	7%	23,206,219
Discounted bills	3,597,503	1%	3,597,503
Gross loans and advances to customers	376,597,360	100%	191,878,266

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Analysed by economic sector (Continued)

	31 December 2017		Loans and advances secured by collaterals
	Amount	Percentage	
Wholesale and retail trade	100,926,576	36%	44,694,794
Renting and business activities	43,369,518	16%	18,913,028
Manufacturing	40,540,165	15%	10,573,149
Real estate	28,298,413	10%	26,111,123
Construction	10,241,283	3%	6,387,504
Transportation, storage and postal services	7,529,093	3%	1,087,833
Accommodation and catering	6,151,850	2%	5,567,630
Production and supply of electric power, gas and water	4,624,882	2%	1,804,721
Mining	2,821,800	1%	456,800
Agriculture, forestry, animal husbandry and fishery	2,618,419	1%	365,219
Culture, sports and entertainment	2,527,612	1%	1,044,100
Household and other services	1,696,850	1%	437,150
Public administration and social organisations	180,000	0%	–
Others	11,023,229	3%	2,650,084
Subtotal of corporate loans and advances	262,549,690	94%	120,093,135
Personal loans and advances	15,008,199	5%	12,887,890
Discounted bills	1,955,529	1%	1,955,529
Gross loans and advances to customers	279,513,418	100%	134,936,554

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Analysed by type of collateral

	31 December 2018
Unsecured loans	14,243,064
Guaranteed loans	170,476,030
Loans secured by tangible assets other than monetary assets	129,346,181
Loans secured by intangible assets or monetary assets	<u>62,532,085</u>
Gross loans and advances to customers	<u>376,597,360</u>
Add: interest receivable	1,839,265
Less: provision for impairment losses on loans and advances to customers measured at amortised cost	<u>(10,358,586)</u>
Net loans and advances to customers	<u><u>368,078,039</u></u>
	31 December 2017
Unsecured loans	18,528,124
Guaranteed loans	126,048,740
Loans secured by tangible assets other than monetary assets	109,919,300
Loans secured by intangible assets or monetary assets	<u>25,017,254</u>
Gross loans and advances to customers	<u>279,513,418</u>
Less: provision for impairment losses	
– Individually assessed	(2,111,924)
– Collectively assessed	<u>(5,618,707)</u>
Total provision for impairment losses	<u>(7,730,631)</u>
Net loans and advances to customers	<u><u>271,782,787</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(d) Overdue loans analysed by overdue period

	31 December 2018				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	12,213	17,888	13,887	2,368	46,356
Guaranteed loans	5,108,830	12,618,439	681,944	56,255	18,465,468
Loans secured by tangible assets other than monetary assets	4,569,736	7,070,353	372,280	187,353	12,199,722
Loans secured by intangible assets or monetary assets	598,157	40,278	–	70,000	708,435
Total	10,288,936	19,746,958	1,068,111	315,976	31,419,981
As a percentage of gross loans and advances to customers	2.73%	5.25%	0.28%	0.08%	8.34%

	31 December 2017				Total
	Overdue within three months (inclusive)	Overdue more than three months to one year (inclusive)	Overdue more than one year to three years (inclusive)	Overdue more than three years	
Unsecured loans	8,856	2,775	19,412	142	31,185
Guaranteed loans	112,294	546,732	2,441,677	47,096	3,147,799
Loans secured by tangible assets other than monetary assets	1,123,008	86,577	783,500	70,185	2,063,270
Loans secured by intangible assets or monetary assets	–	–	–	70,000	70,000
Total	1,244,158	636,084	3,244,589	187,423	5,312,254
As a percentage of gross loans and advances to customers	0.44%	0.23%	1.16%	0.07%	1.90%

Overdue loans represent loans, of which the whole or part of the principal or interest were overdue for one day or more.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Loans and advance and provision for impairment losses

- (i) As at December 31, 2018, detailed information of loans and advances to customers and provision for impairment losses is as follows:

	31 December 2018			Total
	Loans and advances that are assessed for expected credit losses over the next 12 months	Loans and advances that are not credit-impaired and assessed for lifetime expected credit loss	Credit-impaired loans and advances that are assessed for lifetime expected credit loss	
Gross loans and advances to customers	348,833,928	6,016,102	21,747,330	376,597,360
Add: interest receivable	1,839,265	–	–	1,839,265
Less: provision for impairment losses on loans and advances to customers measured at amortised cost	(3,640,867)	(1,200,134)	(5,517,585)	(10,358,586)
Net loans and advances to customers	<u>347,032,326</u>	<u>4,815,968</u>	<u>16,229,745</u>	<u>368,078,039</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Loans and advance and provision for impairment losses (Continued)

- (ii) As at December 31, 2017, detailed information of loans and advances to customers and provision for impairment losses is as follows:

	31 December 2017			Total	Gross impaired loans and advances as a percentage of gross loans and advances
	Loans and advances for which provision are collectively assessed	Impaired loans and advances for which provision are collectively assessed	for which provision are individually assessed		
Gross loans and advances to customers	275,357,588	113,032	4,042,798	279,513,418	1.49%
Less: provision for impairment losses	(5,506,386)	(112,321)	(2,111,924)	(7,730,631)	
Net loans and advances to customers	<u>269,851,202</u>	<u>711</u>	<u>1,930,874</u>	<u>271,782,787</u>	

(f) Movements of provision for impairment losses

As at 31 December 2018, the movements of provision for loans and advances to customers are as follows:

- (i) Movements of provision for impairment losses of loans and advances to customers measured at amortised cost:

	Year ended 31 December 2018			Total
	ECL over the next 12 months	Lifetime ECL- not credit-impaired loans	Lifetime ECL- credit-impaired loans	
As at 1 January (Note 2(b))	3,347,500	1,382,476	2,929,100	7,659,076
Transferred:				
– to ECL over the next 12 months	8,328	(8,328)	–	–
– to lifetime ECL- not credit-impaired loans	(7,833)	7,833	–	–
– to lifetime ECL- credit-impaired loans	(140,717)	(398,536)	539,253	–
Net charge for the year	433,589	216,689	4,470,653	5,120,931
Transfer out	–	–	(2,076,660)	(2,076,660)
Unwinding of discount	–	–	(137,928)	(137,928)
Write-offs	–	–	(206,976)	(206,976)
Recoveries	–	–	143	143
As at 31 December	<u>3,640,867</u>	<u>1,200,134</u>	<u>5,517,585</u>	<u>10,358,586</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(f) Movements of provision for impairment losses (Continued)

- (ii) Movements of provision for impairment losses of loans and advances to customers measured at fair value through other comprehensive income:

	Year ended 31 December 2018			Total
	ECL over the next 12 months	Lifetime ECL- not credit-impaired loans	Lifetime ECL- credit-impaired loans	
As at 1 January (Note 2(b))	982	–	–	982
Net charge for the year	647	–	–	647
As at 31 December	1,629	–	–	1,629

Provision for impairment of loans and advances to customers measured at fair value through other comprehensive income are recognised in other comprehensive income, while the impairment losses are recognised in profit or loss. Besides, the carrying amount of the financial assets presented in the balance sheet are not reduced.

As at 31 December 2017, the movement of provision for loans and advances to customers are as follows:

	Year ended 31 December 2017			Total
	Provision for loans and advances which are collectively assessed	Provision for impaired loans and advances which are collectively assessed	Provision for impaired loans and advances which are individually assessed	
As at 1 January	4,379,900	102,589	2,053,429	6,535,918
Charge for the year	1,983,638	73,543	472,843	2,530,024
Release for the year	(857,152)	(54,972)	(305,288)	(1,217,412)
Unwinding of discount	–	–	(110,278)	(110,278)
Write-offs	–	(8,866)	–	(8,866)
Recoveries	–	27	1,218	1,245
As at 31 December	5,506,386	112,321	2,111,924	7,730,631

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(g) Analysed by geographical sector (Note (i))

	31 December 2018		
	Loans balance	Percentage	Loans and advances secured by collaterals
Northeast China	305,293,090	81%	170,405,720
North China	57,830,506	15%	13,338,077
Others	13,473,764	4%	8,134,469
Gross loans and advances to customers	<u>376,597,360</u>	<u>100%</u>	<u>191,878,266</u>

	31 December 2017		
	Loans balance	Percentage	Loans and advances secured by collaterals
Northeast China	221,554,961	79%	117,075,623
North China	48,442,832	17%	12,114,861
Others	9,515,625	4%	5,746,070
Gross loans and advances to customers	<u>279,513,418</u>	<u>100%</u>	<u>134,936,554</u>

Note:

- (i) The definitions of the geographical sectors are set out in Note 38(b).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS

	Note	31 December 2018	31 December 2017
Financial assets at fair value through profit or loss	20(a)	151,690,685	–
Financial assets at fair value through other comprehensive income	20(b)	59,925,100	–
Financial assets measured at amortised cost	20(c)	263,149,991	–
Available-for-sale financial assets	20(d)	–	103,729,104
Held-to-maturity investments	20(e)	–	224,536,165
Loans and receivables	20(f)	–	238,100,568
Total		<u>474,765,776</u>	<u>566,365,837</u>

(a) Financial assets at fair value through profit or loss

	31 December 2018
Debt securities at fair value listed outside Hong Kong	
– Banks and other financial institutions	1,101,407
– Corporate	1,030,961
– Policy banks	<u>1,434,344</u>
Subtotal	3,566,712
Wealth management plan	103,158,400
Investment funds	34,480,163
Financial products issued by financial institutions	<u>10,485,410</u>
Total	<u>151,690,685</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

(b) Financial assets at fair value through other comprehensive income

	<i>Note</i>	31 December 2018
Debt securities at fair value listed outside Hong Kong		
– Government		17,882,657
– Policy banks		26,904,821
– Banks and other financial institutions		1,018,740
– Corporate		4,532,188
		<hr/>
Subtotal		50,338,406
		<hr style="border-top: 1px dashed red;"/>
Wealth management plan		6,330,566
Equity investments		
– Unlisted	20(b)(i)	2,072,175
		<hr/>
Subtotal		8,402,741
		<hr style="border-top: 1px dashed red;"/>
Add: interest receivable		1,183,953
		<hr style="border-top: 1px dashed red;"/>
Total		59,925,100
		<hr style="border-top: 3px double red;"/>

- (i) The Group chose to designate non-trading equity investments as at financial assets at fair value through other comprehensive income on the transition date. As at 31 December 2018, the amount for these non-trading equity investments was RMB2,072 million. For the year ended 31 December 2018, the dividend income from these non-trading equity investments amounted to RMB16 million and was included in profit or loss. As at 31 December 2018, non-trading equity investments of the Group were not disposed and no accumulated gain or loss was transferred from other comprehensive income to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

(b) Financial assets at fair value through other comprehensive income (Continued)

The movements of provision for financial assets at fair value through other comprehensive income are as follows:

	Year ended 31 December 2018			Total
	ECL over the next 12 months	Lifetime ECL- not credit-impaired	Lifetime ECL- credit-impaired	
As at 1 January (Note 2(b))	8,801	–	–	8,801
Net release for the year	(3,348)	–	–	(3,348)
As at 31 December	<u>5,453</u>	<u>–</u>	<u>–</u>	<u>5,453</u>

Provision for impairment of financial investments measured at fair value through other comprehensive income are recognised in other comprehensive income, while losses or gains from impairment are included in profit or loss. Besides, the book value of the financial assets presented in the balance sheet are not reduced.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

(c) Financial assets measured at amortised cost

	31 December 2018
Debt securities at fair value listed outside Hong Kong	
– Government	51,379,771
– Policy banks	64,533,451
– Banks and other financial institutions	5,888,675
– Corporate	30,809,362
	<hr/>
Subtotal	152,611,259
	<hr style="border-top: 1px dashed red;"/>
Wealth management plan	21,722,671
Beneficial investment of trust	87,960,574
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Subtotal	109,683,245
	<hr style="border-top: 1px dashed red;"/>
Add: interest receivable	3,253,400
Less: provision for impairment losses	(2,397,913)
	<hr style="border-top: 1px dashed red;"/>
Total	263,149,991
	<hr style="border-top: 3px double black;"/>

The movements of provision for financial assets at amortised cost are as follows:

	Year ended 31 December 2018			Total
	ECL over the next 12 months	Lifetime ECL- not credit- impaired loans	Lifetime ECL- credit-impaired loans	
As at 1 January (Note 2(b))	1,243,608	52,321	57,835	1,353,764
Transferred:				
– to ECL over the next 12 months	37,169	(37,169)	–	–
– to lifetime ECL – credit-impaired investments	–	(5,494)	5,494	–
Net charge for the year	213,855	121,954	708,340	1,044,149
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December	1,494,632	131,612	771,669	2,397,913
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

(d) Available-for-sale financial assets

	31 December 2017
	<i>Note</i>
Debt securities at fair value listed outside Hong Kong	
– Government	2,579,626
– Policy banks	18,086,614
– Banks and other financial institutions	24,945,766
– Corporate	<u>7,661,698</u>
Subtotal	<u>53,273,704</u>
Investment funds	50,071,375
Equity investments	
– Unlisted	20(d)(i) <u>384,025</u>
Total	<u><u>103,729,104</u></u>

Note:

- (i) There is no active market for certain available-for-sale unlisted equity investments and it is the Group's intention to dispose of them as opportunities arise.

(e) Held-to-maturity investments

	31 December 2017
Listed outside Hong Kong	
– Government	107,016,384
– Policy banks	91,460,083
– Banks and other financial institutions	25,166,186
– Corporate	<u>893,512</u>
Total	<u><u>224,536,165</u></u>
Fair value of listed securities	<u><u>218,352,067</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

20 FINANCIAL INVESTMENTS (CONTINUED)

(f) Loans and receivables

	Note	31 December 2017
Investment management products managed by securities companies		137,276,867
Investment management products under trust scheme		99,736,701
Wealth management products issued by financial institutions		<u>2,500,000</u>
Subtotal	20(f)(i)	239,513,568
Less: provisions for loans and receivables		<u>(1,413,000)</u>
Total		<u><u>238,100,568</u></u>

(i) Analysed by credit risk-bearing party

	31 December 2017
Loans and receivables	
– Banks and other financial institutions	116,657,958
– Corporate	114,975,610
– Government	<u>7,880,000</u>
Total	<u><u>239,513,568</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES

The Bank

	31 December 2018	31 December 2017
Shenyang Shenbei Fumin Village Bank Co., Ltd. ("Shenyang Shenbei")	35,321	35,321
Shenyang Xinmin Fumin Village Bank Co., Ltd. ("Shenyang Xinmin")	6,230	6,230
Shenyang Faku Fumin Village Bank Co., Ltd. ("Shenyang Faku")	6,262	6,262
Shenyang Liaozhong Fumin Village Bank Co., Ltd. ("Shenyang Liaozhong")	6,097	6,097
Ningbo Jiangbei Fumin Rural Bank Co., Ltd. ("Ningbo Jiangbei")	30,039	30,039
Shanghai Baoshan Fumin Rural Bank Co., Ltd. ("Shanghai Baoshan")	62,208	62,208
Shengjing Bank Consumer Finance Co., Ltd. ("Shengjing Consumer")	180,000	180,000
Total	326,157	326,157

As at 31 December 2018, background of the subsidiaries is as follows:

	Notes	Date of incorporation	Place of incorporation, registration and operations	Registered capital	Percentage owned by the Bank	Business sector
Shenyang Shenbei	21(a)	09/02/2009	Liaoning, China	150,000	20%	Banking
Shenyang Xinmin	21(b)	25/06/2010	Liaoning, China	30,000	20%	Banking
Shenyang Faku	21(c)	26/10/2010	Liaoning, China	30,000	20%	Banking
Shenyang Liaozhong	21(d)	26/11/2010	Liaoning, China	30,000	20%	Banking
Ningbo Jiangbei	21(e)	17/08/2011	Zhejiang, China	100,000	30%	Banking
Shanghai Baoshan	21(f)	09/09/2011	Shanghai, China	150,000	40%	Banking
Shengjing Consumer		25/02/2016	Liaoning, China	300,000	60%	Consumer finance

Notes:

- (a) According to the revised Articles of Association of Shenyang Shenbei approved by the General Meeting held in June 2012, the financial and operational decisions of Shenyang Shenbei were made by the Bank. The Bank also agreed with seven shareholders who held in total 61.34% of ownership and voting power of Shenyang Shenbei that these seven shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shenyang Shenbei and classified its investment in Shenyang Shenbei as investments in subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

21 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

The Bank (Continued)

Notes: (Continued)

- (b) According to the revised Articles of Association of Shenyang Xinmin approved by the General Meetings held in June 2012, the financial and operational decisions of Shenyang Xinmin were made by the Bank. The Bank also agreed with eight shareholders who held in total 55% of ownership and voting power of Shenyang Xinmin that these eight shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shenyang Xinmin and classified its investment in Shenyang Xinmin as investments in subsidiaries.
- (c) According to the revised Articles of Association of Shenyang Faku approved by the General Meetings held in June 2012, the financial and operational decisions of Shenyang Faku were made by the Bank. The Bank also agreed with seven shareholders who held in total 50% of ownership and voting power of Shenyang Faku that these seven shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shenyang Faku and classified its investment in Shenyang Faku as investments in subsidiaries.
- (d) According to the revised Articles of Association of Shenyang Liaozhong approved by the General Meetings held in June 2012, the financial and operational decisions of Shenyang Liaozhong were made by the Bank. The Bank also agreed with eleven shareholders who held in total 70% of ownership and voting power of Shenyang Liaozhong that these eleven shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shenyang Liaozhong and classified its investment in Shenyang Liaozhong as investments in subsidiaries.
- (e) According to the revised Articles of Association of Ningbo Jiangbei approved by the General Meetings held in June 2012, the financial and operational decisions of Ningbo Jiangbei were made by the Bank. The Bank also agreed with six shareholders who held in total 50% of ownership and voting power of Ningbo Jiangbei that these six shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Ningbo Jiangbei and classified its investment in Ningbo Jiangbei as investments in subsidiaries.
- (f) According to the revised Articles of Association of Shanghai Baoshan approved by the General Meetings held in June 2012, the financial and operational decisions of Shanghai Baoshan were made by the Bank. The Bank also agreed with four shareholders who held in total 35.33% of ownership and voting power of Shanghai Baoshan that these four shareholders would follow the vote of the Bank on all key decision making including but not limited to financial and operational decisions from June 2012. Hence, the Bank had control over Shanghai Baoshan and classified its investment in Shanghai Baoshan as investments in subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

22 PROPERTY AND EQUIPMENT

	Premises	Leasehold improvement	CIP	Office equipment	Others	Total
Cost						
As at 1 January 2017	3,563,789	632,343	1,868,082	663,202	98,254	6,825,670
Additions	37,507	115,206	664,992	81,137	2,659	901,501
CIP transfers	25,614	12,909	(38,523)	–	–	–
Disposals	(4,797)	–	–	(9,745)	–	(14,542)
As at 31 December 2017 and 1 January 2018	3,622,113	760,458	2,494,551	734,594	100,913	7,712,629
Additions	40,124	78,254	87,193	74,940	1,416	281,927
CIP transfers	254,280	55,803	(310,083)	–	–	–
Disposals	–	–	–	(6,218)	–	(6,218)
As at 31 December 2018	3,916,517	894,515	2,271,661	803,316	102,329	7,988,338
Accumulated depreciation						
As at 1 January 2017	(1,121,205)	(380,063)	–	(431,125)	(84,698)	(2,017,091)
Additions	(172,389)	(81,808)	–	(93,327)	(4,856)	(352,380)
Disposals	4,653	–	–	9,438	–	14,091
As at 31 December 2017 and 1 January 2018	(1,288,941)	(461,871)	–	(515,014)	(89,554)	(2,355,380)
Additions	(189,510)	(99,684)	–	(85,285)	(4,084)	(378,563)
Disposals	–	–	–	6,030	–	6,030
As at 31 December 2018	(1,478,451)	(561,555)	–	(594,269)	(93,638)	(2,727,913)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

22 PROPERTY AND EQUIPMENT (CONTINUED)

	Premises	Leasehold improvement	CIP	Office equipment	Others	Total
Net book value						
As at 31 December 2017	<u>2,333,172</u>	<u>298,587</u>	<u>2,494,551</u>	<u>219,580</u>	<u>11,359</u>	<u>5,357,249</u>
As at 31 December 2018	<u>2,438,066</u>	<u>332,960</u>	<u>2,271,661</u>	<u>209,047</u>	<u>8,691</u>	<u>5,260,425</u>

The carrying amount of premises without title deeds as at 31 December 2018 was RMB499.32 million (31 December 2017: RMB279.55 million). The Group is still in the progress of applying the title deeds for the above premises. Management of the Group expected that there would be no significant costs in obtaining the title deeds.

The net book values of premises at the end of the reporting period are analysed by the remaining terms of the land leases as follows:

	31 December 2018	31 December 2017
Held in mainland China		
– Long term leases (over 50 years)	259,925	274,522
– Medium term leases (10 – 50 years)	1,977,380	1,973,632
– Short term leases (less than 10 years)	<u>200,761</u>	<u>85,018</u>
Total	<u>2,438,066</u>	<u>2,333,172</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 DEFERRED INCOME TAX ASSETS AND LIABILITIES

(a) Analysed by nature

	31 December 2018		31 December 2017	
	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)	Deductible/ (taxable) temporary differences	Deferred income tax assets/ (liabilities)
Deferred income tax assets:				
Allowance for impairment losses	12,375,648	3,093,912	6,510,970	1,627,742
Change in fair value of derivative financial instruments	–	–	839,493	209,873
Change in fair value of available-for-sale financial assets	–	–	447,167	111,792
Supplementary retirement benefits	98,488	24,622	97,579	24,395
	<u>12,474,136</u>	<u>3,118,534</u>	<u>7,895,209</u>	<u>1,973,802</u>
Deferred income tax liabilities:				
Change in fair value of financial assets at fair value through other comprehensive income	(1,496,780)	(374,195)	–	–
Change in fair value of derivative financial instruments	(1,412,452)	(353,113)	–	–
Change in fair value of financial assets at fair value through profit or loss	(954,672)	(238,668)	–	–
	<u>(3,863,904)</u>	<u>(965,976)</u>	<u>–</u>	<u>–</u>
Net deferred income tax	<u>8,610,232</u>	<u>2,152,558</u>	<u>7,895,209</u>	<u>1,973,802</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Analysed by movement

	At 31 December 2017	Changes in accounting policies	At 1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2018
Deferred income tax assets:						
Allowance for impairment losses	1,627,742	205,264	1,833,006	1,260,906	-	3,093,912
Change in fair value of available-for-sale financial assets	111,792	(111,792)	-	-	-	-
Change in fair value of derivative financial instruments	209,873	-	209,873	(209,873)	-	-
Supplementary retirement benefits	24,395	-	24,395	(2,373)	2,600	24,622
Subtotal	1,973,802	93,472	2,067,274	1,048,660	2,600	3,118,534
Deferred income tax liabilities:						
Change in fair value of financial assets at fair value through other comprehensive income	-	55,173	55,173	-	(429,368)	(374,195)
Change in fair value of derivative financial instruments	-	-	-	(353,113)	-	(353,113)
Change in fair value of financial assets at fair value through profit or loss	-	47,087	47,087	(285,755)	-	(238,668)
Subtotal	-	102,260	102,260	(638,868)	(429,368)	(965,976)
Net deferred income tax	1,973,802	195,732	2,169,534	409,792	(426,768)	2,152,558

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

23 DEFERRED INCOME TAX ASSETS AND LIABILITIES (CONTINUED)

(b) Analysed by movement (Continued)

	At 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2017
Deferred income tax assets:				
Allowance for impairment losses	1,418,292	209,450	–	1,627,742
Change in fair value of available-for-sale financial assets	30,681	–	81,111	111,792
Change in fair value of derivative financial instruments	–	209,873	–	209,873
Supplementary retirement benefits	27,737	(3,544)	202	24,395
Subtotal	1,476,710	415,779	81,313	1,973,802
Deferred income tax liabilities:				
Change in fair value of derivative financial instruments	(65,585)	65,585	–	–
Subtotal	(65,585)	65,585	–	–
Net deferred income tax	1,411,125	481,364	81,313	1,973,802

24 OTHER ASSETS

	Note	31 December 2018	31 December 2017
Reposessed assets	24(a)	615,138	136,733
Interest receivable	24(b)	221,614	8,839,765
Prepayments		175,078	159,054
Intangible assets	24(c)	118,218	108,088
Settlement and clearing accounts		69,148	145,631
Land use rights		58,135	61,206
Value-added tax retained		–	260,467
Long-term deferred expense		–	4,967
Others	24(d)	528,119	434,447
Total		1,785,450	10,150,358

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

24 OTHER ASSETS (CONTINUED)

(a) Repossessed assets

	31 December 2018	31 December 2017
Land use rights and buildings	674,578	136,733
Subtotal	674,578	136,733
Less: impairment allowance	(59,440)	–
	<u>615,138</u>	<u>136,733</u>

(b) Interest receivable

	31 December 2018	31 December 2017
Interest receivable arising from:		
– Loans and advances to customers	221,614	925,057
– Financial investments	–	7,156,463
– Deposits with banks and other financial institutions	–	646,733
– Others	–	111,512
	<u>221,614</u>	<u>8,839,765</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

24 OTHER ASSETS (CONTINUED)

(c) Intangible assets

	31 December 2018	31 December 2017
Cost		
As at 1 January	193,914	163,432
Additions	<u>26,871</u>	<u>30,482</u>
As at 31 December	<u>220,785</u>	<u>193,914</u>
Accumulated amortisation		
As at 1 January	(85,826)	(71,936)
Additions	<u>(16,741)</u>	<u>(13,890)</u>
As at 31 December	<u>(102,567)</u>	<u>(85,826)</u>
Net value		
As at 1 January	<u>108,088</u>	<u>91,496</u>
As at 31 December	<u>118,218</u>	<u>108,088</u>

Intangible assets of the Group mainly represent computer software.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

24 OTHER ASSETS (CONTINUED)

(d) Others

	31 December 2018	31 December 2017
Receivable due from disposal of non-performing assets (Note (i))	653,754	653,754
Others	166,375	92,790
Subtotal	820,129	746,544
Less: impairment allowance	(292,010)	(312,097)
	<u>528,119</u>	<u>434,447</u>

Note:

- (i) It represents a receivable from Shenyang City Infrastructure Construction Investment Development Co., Ltd. and the receivable is guaranteed by one of the Bank's shareholder, Shenyang Hengxin State-owned Asset Management Group Co., Ltd.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

25 BORROWINGS FROM CENTRAL BANK

	31 December 2018	31 December 2017
Borrowings (Note (a))	41,660,000	48,160,000
Add: interest payable	58,868	–
Total	41,718,868	48,160,000

Note:

(a) Borrowings from central bank mainly include Medium-term Lending Facility and open market operations.

26 DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	31 December 2018	31 December 2017
Deposits in mainland China		
– Banks	48,587,425	71,899,960
– Other financial institutions	32,051,369	81,751,636
Subtotal	80,638,794	153,651,596
Add: interest payable	354,887	–
Total	80,993,681	153,651,596

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

27 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Analysed by type and location of counterparty

	31 December 2018	31 December 2017
Placements in mainland China		
– Banks	42,685,766	48,323,948
– Other financial institutions	3,777	3,000,000
Subtotal	42,689,543	51,323,948
Add: interest payable	131,720	–
Total	42,821,263	51,323,948

28 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by type and location of counterparty

	31 December 2018	31 December 2017
In mainland China		
– Banks	31,113,230	63,629,195
– Other financial institutions	1,162,939	11,994,070
Subtotal	32,276,169	75,623,265
Add: interest payable	32,969	–
Total	32,309,138	75,623,265

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

28 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (CONTINUED)

(b) Analysed by type of security held

	31 December 2018	31 December 2017
Debt securities sold under repurchase agreements	31,860,300	74,678,697
Bills sold under repurchase agreements	415,869	944,568
Subtotal	32,276,169	75,623,265
Add: interest payable	32,969	–
Total	32,309,138	75,623,265

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

29 DEPOSITS FROM CUSTOMERS

	31 December 2018	31 December 2017
Demand deposits		
– Corporate deposits	157,657,454	114,625,939
– Personal deposits	<u>16,571,753</u>	<u>14,551,352</u>
Subtotal	<u>174,229,207</u>	<u>129,177,291</u>
Time deposits		
– Corporate deposits	159,325,536	172,364,434
– Personal deposits	<u>142,442,046</u>	<u>127,528,837</u>
Subtotal	<u>301,767,582</u>	<u>299,893,271</u>
Pledged deposits		
– Acceptances	33,519,498	42,855,818
– Letters of credit	1,626,410	544,109
– Letters of guarantees	1,467,943	542,425
– Others	<u>301,613</u>	<u>322,628</u>
Subtotal	<u>36,915,464</u>	<u>44,264,980</u>
Inward and outward remittances	<u>1,254,744</u>	<u>245,266</u>
Total deposits from customers at amortised cost	514,166,997	473,580,808
Add: interest payable	<u>10,773,551</u>	<u>–</u>
Total	<u>524,940,548</u>	<u>473,580,808</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 DEBT SECURITIES ISSUED

	Note	31 December 2018	31 December 2017
Tier two capital fixed rate debts maturing in May 2024	30(a)	2,200,000	2,200,000
Tier two capital fixed rate debts maturing in December 2025	30(b)	10,000,000	10,000,000
Tier two capital fixed rate debts maturing in December 2027	30(c)	6,000,000	6,000,000
Financial fixed rate bonds maturing in August 2019	30(d)	5,000,000	5,000,000
Financial fixed rate bonds maturing in August 2021	30(e)	2,000,000	2,000,000
Financial fixed rate bonds maturing in August 2021	30(f)	12,000,000	–
Financial fixed rate bonds maturing in October 2021	30(g)	8,000,000	–
Financial fixed rate bonds maturing in November 2021	30(h)	6,900,000	–
Certificates of interbank deposit	30(i)	133,950,363	115,720,240
Subtotal		186,050,363	140,920,240
Add: interest payable		516,862	–
Total		186,567,225	140,920,240

Notes:

- (a) Tier two capital fixed rate debts of RMB2.2 billion with a term of ten years were issued on 28 May 2014. The coupon rate is 6.18%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (b) Tier two capital fixed rate debts of RMB10.0 billion with a term of ten years were issued on 4 December 2015. The coupon rate is 4.57%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (c) Tier two capital fixed rate debts of RMB6.0 billion with a term of ten years were issued on 18 December 2017. The coupon rate is 4.90%. The Group has an option to redeem the debts at the 5th year at the nominal amount. If the debts are not redeemed by the Group, the coupon rate will stay the same for the next 5 years.
- (d) Financial fixed rate bonds of RMB5.0 billion with a term of three years were issued on 26 August 2016. The coupon rate is 3.00% per annum.
- (e) Financial fixed rate bonds of RMB2.0 billion with a term of five years were issued on 26 August 2016. The coupon rate is 3.10% per annum.
- (f) Financial fixed rate bonds of RMB12.0 billion with a term of three years were issued on 15 August 2018. The coupon rate is 4.35% per annum.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

30 DEBT SECURITIES ISSUED (CONTINUED)

Notes: (Continued)

- (g) Financial fixed rate bonds of RMB8.0 billion with a term of three years were issued on 25 October 2018. The coupon rate is 4.10% per annum.
- (h) Financial fixed rate bonds of RMB6.9 billion with a term of three years were issued on 26 November 2018. The coupon rate is 3.98% per annum.
- (i) As at 31 December 2018, the interbank negotiable certificates of deposit were measured at amortised cost. The fair value of the interbank deposits issued mentioned above approximates to RMB132,848 million (31 December 2017: RMB114,347 million).

31 OTHER LIABILITIES

	Note	31 December 2018	31 December 2017
Payment and collection clearance accounts		1,405,060	350,121
Expected credit loss of credit commitment	31(a)	710,954	–
Accrued staff cost	31(b)	515,698	404,265
Taxes payable	31(c)	398,475	59,690
Dividend payable		145,313	134,615
Deferred income		73,327	61,114
Dormant accounts		40,464	40,909
Interest payable	31(d)	–	13,659,993
Others		339,398	349,764
Total		3,628,689	15,060,471

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

31 OTHER LIABILITIES (CONTINUED)

(a) Expected credit loss of credit commitment

	Year ended 31 December 2018			Total
	ECL over the next 12 months	Lifetime ECL-not credit-impaired	Lifetime ECL-credit-impaired	
As at 1 January (<i>Note 2</i>)	920,325	187	900	921,412
Transferred:				
– to ECL over the next 12 months	16	(16)	–	–
– to lifetime ECL – not credit-impaired	(18)	18	–	–
Net (release)/charge for the year	(368,615)	45,660	112,497	(210,458)
As at 31 December	551,708	45,849	113,397	710,954

(b) Accrued staff cost

	<i>Note</i>	31 December 2018	31 December 2017
Salary, bonuses and allowances payable		294,176	193,394
Pension and annuity payable	31(b)(i)	77,003	71,806
Supplementary retirement benefits payable	31(b)(ii)	98,487	97,579
Housing allowances payable		31,208	29,992
Other social insurance payable		2,302	2,212
Others		12,522	9,282
Total		515,698	404,265

(i) Pension and annuity

Pursuant to the relevant laws and regulations in the PRC, the Group has participated in the social pension schemes for employees arranged by local government labor and social security authorities. The Group makes contributions to the retirement scheme at the applicable rates based on the amounts stimulated by the relevant government authorities.

The Group also provides an annuity plan to the eligible employees. The Group makes annuity contributions in proportion to the total salaries and bonuses of employees, which are charged to profit or loss when the contributions are made.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

31 OTHER LIABILITIES (CONTINUED)

(b) Accrued staff cost (Continued)

(ii) Supplementary retirement benefits

Early retirement plan

The Group provides early retirement benefit payments to employees who voluntarily agreed to retire before the retirement age during the period from the date of early retirement to the statutory retirement date. The Group accounts for the respective obligations in accordance with the accounting policies in Note 2(o).

Supplementary retirement plan

The Group provides a supplementary retirement plan to its eligible employees, which is mainly heating compensation. The Group accounted for the respective obligations in accordance with the accounting policies in Note 2(o).

(1) The balances of supplementary retirement benefits of the Group are as follows:

	31 December 2018	31 December 2017
Present value of early retirement plan	38,629	50,841
Present value of supplementary retirement plan	59,858	46,738
Total	98,487	97,579

(2) The movements of supplementary retirement benefits of the Group are as follows:

	2018	2017
As at 1 January	97,579	110,946
Benefits paid during the year	(14,236)	(15,150)
Defined benefit cost recognised in profit or loss	4,743	973
Defined benefit cost recognised in other comprehensive income	10,401	810
As at 31 December	98,487	97,579

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

31 OTHER LIABILITIES (CONTINUED)

(b) Accrued staff cost (Continued)

(ii) Supplementary retirement benefits (Continued)

Supplementary retirement benefits (Continued)

(3) Principal actuarial assumptions of the Group are as follows:

Early retirement plan	31 December 2018	31 December 2017
Discount rate	2.75%	3.75%
Mortality	Note 31(b)(ii)(3)(i)	Note 31(b)(ii)(3)(i)
Retired age		
– Male	60	60
– Female	55	55
Annual increase rate of internal salary	4.00%	4.00%

Supplementary retirement plan	31 December 2018	31 December 2017
Discount rate	3.50%	4.25%
Mortality	Note 31(b)(ii)(3)(i)	Note 31(b)(ii)(3)(i)
Turnover rate	3.00%	3.00%
Retired age		
– Male	60	60
– Female	55	55

Notes:

- (i) As at 31 December 2018, Mortality assumptions are based on China Life Insurance Annuity Table (2010–2013) in China Life Insurance Mortality Table compiled by People's Life Insurance Company of China (PLICC), which are published historical statistics in China.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

31 OTHER LIABILITIES (CONTINUED)

(c) Taxes payable

	31 December 2018	31 December 2017
Value-added tax and surcharges payable	371,632	–
Others	26,843	59,690
Total	398,475	59,690

(d) Interest payable

	31 December 2017
Interest payable arising from:	
– Deposits from customers	10,964,801
– Deposits from banks and other financial institutions	1,627,531
– Borrowings from central bank	621,019
– Debt securities issued	222,257
– Placements from banks and other financial institutions	174,086
– Financial assets sold under repurchase agreements	33,617
– Others	16,682
Total	13,659,993

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

32 MOVEMENT IN COMPONENTS OF EQUITY

The reconciliation between the opening and closing balance of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the reporting period are set out below:

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Provision reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total
Balance at 31 December 2017		5,796,680	11,855,505	5,352,502	11,027,347	(335,375)	-	(6,076)	17,953,582	51,644,165
Impact on initial application of IFRS9		-	-	-	-	169,856	7,337	-	(764,231)	(587,038)
Balance at 1 January 2018		5,796,680	11,855,505	5,352,502	11,027,347	(165,519)	7,337	(6,076)	17,189,351	51,057,127
Profit for the year		-	-	-	-	-	-	-	5,126,345	5,126,345
Other comprehensive income		-	-	-	-	1,288,106	(2,026)	(7,801)	-	1,278,279
Total comprehensive income		-	-	-	-	1,288,106	(2,026)	(7,801)	5,126,345	6,404,624
Appropriation of profit:										
- Appropriation to surplus reserve	34	-	-	757,660	-	-	-	-	(757,660)	-
- Appropriation to general reserve	34	-	-	-	1,537,575	-	-	-	(1,537,575)	-
- Cash dividends	34	-	-	-	-	-	-	-	(1,043,402)	(1,043,402)
Subtotal		-	-	757,660	1,537,575	-	-	-	(3,338,637)	(1,043,402)
Balance at 31 December 2018		5,796,680	11,855,505	6,110,162	12,564,922	1,122,587	5,311	(13,877)	18,977,059	56,418,349

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

32 MOVEMENT IN COMPONENTS OF EQUITY (CONTINUED)

	Note	Share capital	Capital reserve	Surplus reserve	General reserve	Fair value reserve	Deficit on remeasurement of net defined benefit liability	Retained earnings	Total
Balance at 1 January 2017		5,796,680	11,855,505	4,666,968	9,263,993	(92,044)	(5,468)	14,275,041	45,760,675
Profit for the year		-	-	-	-	-	-	7,576,599	7,576,599
Other comprehensive income		-	-	-	-	(243,331)	(608)	-	(243,939)
Total comprehensive income		-	-	-	-	(243,331)	(608)	7,576,599	7,332,660
Appropriation of profit:									
- Appropriation to surplus reserve	34	-	-	685,534	-	-	-	(685,534)	-
- Appropriation to general reserve	34	-	-	-	1,763,354	-	-	(1,763,354)	-
- Cash dividends	34	-	-	-	-	-	-	(1,449,170)	(1,449,170)
Subtotal		-	-	685,534	1,763,354	-	-	(3,898,058)	(1,449,170)
Balance at 31 December 2017		5,796,680	11,855,505	5,352,502	11,027,347	(335,375)	(6,076)	17,953,582	51,644,165

33 SHARE CAPITAL

Issued share capital

	31 December 2018	31 December 2017
Number of shares, issued and fully paid at par value (<i>in thousands</i>)	5,796,680	5,796,680

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

34 RESERVES

(a) Capital reserve

Capital reserve mainly included share premium arising from the issuance of new shares at prices in excess of par value.

(b) Surplus reserve

The surplus reserve at the end of the reporting period represented statutory surplus reserve fund and discretionary surplus reserve fund.

Pursuant to the Company Law of the PRC and the Article of Association, the Bank is required to appropriate 10% of its net profit according to the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance ("MOF") after making good prior year's accumulated loss, to statutory surplus reserve fund until the reserve fund balance reaches 50% of its registered capital.

The Bank also appropriates discretionary surplus reserve fund in accordance with the resolution of the shareholders.

(c) General reserve

From 1 July 2012, pursuant to the "Measures on Impairment Allowances for Financial Enterprises (Cai Jin [2012] No.20)" issued by the MOF on 20 March 2012, the Group is required to set aside a general reserve through its profit appropriation which should not be lower than 1.5% of the ending balance of its gross risk-bearing assets by 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

34 RESERVES (CONTINUED)

(d) Fair value reserve

	31 December 2018	31 December 2017
As at 31 December	(335,375)	(92,044)
Impact on initial application of IFRS 9 (Note 2(b))	169,856	–
As at 1 January	(165,519)	(92,044)
Changes in fair value recognised in fair value reserve	1,345,120	(406,098)
Transfer to profit or loss upon disposal	372,354	81,656
Less: income tax	(429,368)	81,111
Subtotal	1,288,106	(243,331)
Total	1,122,587	(335,375)

(e) Provision reserve

	31 December 2018
As at 31 December	–
Impact on initial application of IFRS 9 (Note 2(b))	7,337
As at 1 January	7,337
Changes in fair value recognised in provision reserve	(2,701)
Less: income tax	675
Total	5,311

(f) Deficit on remeasurement of net defined benefit liability

Deficit on remeasurement of net defined benefit liability represents actuarial gains or losses, net of tax, from remeasuring the net defined benefit liability.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

34 RESERVES (CONTINUED)

(g) Retained earnings

As at 31 December 2018, the retained earnings included the statutory surplus reserve of RMB5.45 million (31 December 2017: RMB4.69 million), appropriated by the subsidiaries and attributable to the Bank, of which RMB0.76 million (2017: RMB0.91 million) was appropriated by the subsidiaries for the year then ended. The statutory surplus reserve in retained earnings which is contributed by subsidiaries cannot be further distributed.

35 PROFIT DISTRIBUTION

- (i) In accordance with the resolution of the Bank's Board of directors meeting on 29 March 2019, the proposed profit distribution plan for the year ended 31 December 2018 is as follows:
- Appropriate RMB512.63 million to the discretionary surplus reserve fund;
 - Appropriate RMB825.55 million to the general reserve;
 - Declare cash dividends of RMB1.20 per ten shares before tax and in aggregation of RMB695.60 million to all shareholders.

The profit appropriation resolution mentioned above has yet to be approved by the Bank's shareholders.

- (ii) In accordance with the resolution of the Bank's 2017 Annual General Meeting held on 31 May 2018, the shareholders approved the following profit distribution plan for the year ended 31 December 2017 is as follows:
- Appropriated RMB757.66 million to the discretionary surplus reserve fund;
 - Appropriated RMB1,537.58 million to the general reserve;
 - Declared cash dividends of RMB1.80 per ten shares before tax and in aggregation of RMB1,043.40 million to all shareholders.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Cash and cash equivalents comprise:

	31 December 2018	31 December 2017
Cash on hand	702,533	809,636
Deposits with central bank other than restricted deposits	31,572,455	26,758,129
Deposits with banks and other financial institutions with original maturity of three months or less	5,273,301	5,996,550
Placements with banks and other financial institutions with original maturity of three months or less	2,400,000	27,655,780
Financial assets held under resale agreements with original maturity of three months or less	2,145,860	20,339,752
Total	42,094,149	81,559,847

(b) Reconciliation of liabilities arising from financing activities:

	Debt securities issued (Note 30)	Interest payable arising from debt securities issued (Note 30)	Total
As at 1 January 2018	140,920,240	222,257	141,142,497
Changes from financing cash flows:			
Net proceeds from new debt securities issued	628,363,600	–	628,363,600
Repayment of debt securities issued	(583,261,377)	–	(583,261,377)
Interest paid on debt securities issued	–	(7,655,455)	(7,655,455)
Total changes from financing cash flows	45,102,223	(7,655,455)	37,446,768
Other changes:			
Interest expenses (Note 3)	–	7,950,060	7,950,060
Issuing cost of debt securities	27,900	–	27,900
Total other changes	27,900	7,950,060	7,977,960
As at 31 December 2018	186,050,363	516,862	186,567,225

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

36 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities: (Continued)

	Debt securities issued (Note 30)	Interest payable arising from debt securities issued (Note 31(d))	Total
As at 1 January 2017	87,289,181	204,866	87,494,047
Changes from financing cash flows:			
Net proceeds from new debt securities issued	486,032,509	–	486,032,509
Repayment of debt securities issued	(432,405,450)	–	(432,405,450)
Interest paid on debt securities issued	–	(5,974,008)	(5,974,008)
Total changes from financing cash flows	53,627,059	(5,974,008)	47,653,051
Other changes:			
Interest expenses (Note 3)	–	5,991,399	5,991,399
Issuing cost of debt securities	4,000	–	4,000
Total other changes	4,000	5,991,399	5,995,399
As at 31 December 2017	140,920,240	222,257	141,142,497

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) Relationship of related parties

(i) Major shareholders

Major shareholders include shareholders of the Bank with 5% or above ownership, or assigning a director in the Bank.

Share percentage in the Bank:

	31 December 2018	31 December 2017
Evergrande Group (Nanchang) Co., Ltd.	17.28%	17.28%
Shenyang Hengxin State-owned Asset Management Group Co., Ltd.	8.28%	8.28%
Liaoning Huibao International Investment Group Co., Ltd.	6.90%	6.90%
Xinhu Zhongbao Co., Ltd.	5.18%	5.18%
Founder Securities Co., Ltd.	5.18%	5.18%
Liaoning Huafeng Investment Co., Ltd.	1.73%	1.73%
Shenyang Zhongyou Tipo (Group) Machinery & Equipment Manufacturing Co., Ltd.	–	3.28%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(a) Relationship of related parties (Continued)

(i) Major shareholders (Continued)

Main condition of major shareholders:

Company Name	Registered Address	Main business	Company nature	Legal Representative
Evergrande Group (Nanchang) Co., Ltd.	Nanchang	Industrial investment; investment management	Limited Liability Company	Ju Zhiming
Shenyang Hengxin State-Owned Asset Management Co.,Ltd.	Shenyang	Management and operation of asset	Limited Liability Company	Li Jianwei
Liaoning Huibao International Investment Group Co.,Ltd.	Shenyang	Investment management; exploitation and sales of real estate	Limited Liability Company	Li Yuguo
Xinhu Zhongbao Co.,Ltd.	Jiaxing	Industrial investment; exploitation and sales of real estate	Company Limited by Shares	Lin Junbo
Founder Securities Co.,Ltd.	Changsha	Share broking; asset management	Company Limited by Shares	Shi Hua
Liaoning Huafeng Investment Co.,Ltd.	Shenyang	Project investment and project management	Limited Liability Company	Bao Lijun
Shenyang Zhongyou Tipo (Group) Machinery & Equipment Manufacturing Co., Ltd.	Shenyang	Wholesale, retail and storage of metals, electromechanical and construction materials	Limited Liability Company	Liu Xinfu

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(a) Relationship of related parties (Continued)

(i) Major shareholders (Continued)

Registered capital of major shareholders:

Company Name	Currency	31 December 2018	31 December 2017
Evergrande Group (Nanchang) Co., Ltd.	RMB	53,984,000	53,984,000
Shenyang Hengxin State-Owned Asset Management Co.,Ltd.	RMB	10,000,000	10,000,000
Liaoning International Investment Group Co.,Ltd.	RMB	80,000	80,000
Xinhu Zhongbao Co.,Ltd.	RMB	8,599,000	8,599,000
Founder Securities Co.,Ltd.	RMB	8,232,000	8,232,000
Liaoning Huafeng Investment Co.,Ltd.	RMB	50,000	50,000
Shenyang Zhongyou Tipo (Group) Machinery & Equipment Manufacturing Co., Ltd.	RMB	200,000	200,000

(ii) Subsidiaries of the Bank

The detailed information of the Bank's subsidiaries is set out in Note 21.

(iii) Other related parties

Other related parties can be individuals or enterprises, which include: members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; entities (and their subsidiaries) controlled or jointly controlled by members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals; and entities controlled or jointly controlled by the major shareholders of the Bank as set out in Note 37(a)(i) or their controlling shareholders. Other related parties also include post-employment benefit plans of the Group (Note 31(b)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances

Related party transactions of the Group mainly refer to loans and deposits, which are entered into in the normal course and terms of business, with consistent pricing policies as in transactions with independent third parties.

(i) Transactions between the Bank and major shareholders

(1) Deposits from customers

	31 December 2018	31 December 2017
Shenyang Hengxin State-Owned Asset Management Co.,Ltd.	48,734	30,200
Liaoning Huibao International Investment Group Co., Ltd.	2,434	13,705
Liaoning Huafeng Investment Co.,Ltd.	41	–
Evergrande Group (Nanchang) Co., Ltd.	16	16
Xinhu Zhongbao Co., Ltd.	14	1,030
Shenyang Zhongyou Tipo (Group) Machinery & Equipment Manufacturing Co., Ltd.	–	11
Total	<u>51,239</u>	<u>44,962</u>

(2) Guarantees received

	31 December 2018	31 December 2017
Shenyang Hengxin State-Owned Asset Management Co.,Ltd.	977,500	1,285,500
Xinhu Zhongbao Co.,Ltd.	340,600	–
Liaoning Huibao International Investment Group Co.,Ltd.	275,000	295,000
Liaoning Huafeng Investment Co.,Ltd.	24,730	–
Total	<u>1,617,830</u>	<u>1,580,500</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances (Continued)

(i) Transactions between the Bank and major shareholders (Continued)

(3) Interest expense

	2018	2017
Shenyang Hengxin State-Owned Asset Management Co.,Ltd.	140	164
Liaoning Huibao International Investment Group Co.,Ltd.	7	25
Xinhu Zhongbao Co.,Ltd.	5	38
Liaoning Huafeng Investment Co.,Ltd.	1	–
Evergrande Group (Nanchang) Co., Ltd.	–	49
Total	153	276

(ii) Transactions between the Bank and subsidiaries

	31 December 2018	31 December 2017
Balances at the end of the year:		
Deposits from banks and other financial institutions	180,885	113,225
Placements from banks and other financial institutions	100,000	–
	2018	2017
Transactions during the year:		
Interest income	767	883
Interest expense	1,534	9,665

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(b) Related party transactions and balances (Continued)

(iii) Transactions between the Bank and other related parties

	31 December 2018	31 December 2017
Balances at the end of the year:		
Loans and advances to customers	9,236,545	1,655,976
Financial assets measured at amortised cost	15,342,955	–
Loans and receivables	–	4,799,493
Deposits from customers	18,166,929	31,799,316
Bank acceptances	60	60
Guarantees received	30,830,350	5,847,178
	2018	2017
Transactions during the year:		
Interest income	1,663,958	353,469
Interest expense	122,033	12,071
Fee and commission income	–	48

(c) Key management personnel

(i) Key management personnel remuneration

	2018	2017
Salaries and other emoluments	19,155	16,469
Discretionary bonuses	19,413	23,903
Contributions to pension schemes	1,721	1,650
Total	40,289	42,022

(ii) Loans and advances to directors, supervisors and officers

At 31 December 2018 and 2017, there is no loans and advances to directors, supervisors and officers of the Group pursuant to section 383(1) of Hong Kong Companies Ordinance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

37 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (CONTINUED)

(c) Key management personnel (Continued)

(iii) Transactions between the Bank and key management personnel

	31 December 2018	31 December 2017
Balances at the end of the year:		
Deposits from customers	12,940	14,863
Loans and advances to customers	526	–
	2018	2017
Transactions during the year:		
Interest income	3	–
Interest expense	345	449

38 SEGMENT REPORTING

(a) Business Segment

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

Corporate banking

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

Retail banking

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

Treasury business

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

Others

Others represent equity investment and related income and any other business which cannot form a single reportable segment.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

	Year ended 31 December 2018				
	Corporate banking	Retail banking	Treasury business	Others	Total
Operating income					
External net interest income/(expense)	9,150,230	(4,198,382)	7,465,716	–	12,417,564
Internal net interest income/(expense)	113,301	5,053,014	(5,166,315)	–	–
Net interest income	9,263,531	854,632	2,299,401	–	12,417,564
Net fee and commission income	251,711	382,008	(7,020)	–	626,699
Net trading gains	–	–	1,814,010	–	1,814,010
Net gains arising from investments	–	–	3,855,555	15,730	3,871,285
Net foreign exchange losses	–	–	(2,883,141)	–	(2,883,141)
Other operating income	11,265	1,406	6,445	19,933	39,049
Operating income	9,526,507	1,238,046	5,085,250	35,663	15,885,466
Operating expenses	(2,457,192)	(939,394)	(543,408)	(5,221)	(3,945,215)
Impairment losses on assets	(5,264,230)	(96,217)	(1,040,802)	–	(6,401,249)
Profit before tax	<u>1,805,085</u>	<u>202,435</u>	<u>3,501,040</u>	<u>30,442</u>	<u>5,539,002</u>
Other segment information					
– Depreciation and amortisation	<u>280,828</u>	<u>109,559</u>	<u>12,955</u>	–	<u>403,342</u>
– Capital expenditure	<u>215,003</u>	<u>83,879</u>	<u>9,918</u>	–	<u>308,800</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

	31 December 2018				Total
	Corporate banking	Retail banking	Treasury business	Others	
Segment assets	402,792,427	37,496,567	542,991,388	–	983,280,382
Deferred tax assets					<u>2,152,558</u>
Total assets					<u>985,432,940</u>
Segment liabilities/total liabilities	<u>360,087,016</u>	<u>167,537,690</u>	<u>400,633,103</u>	<u>145,647</u>	<u>928,403,456</u>
Credit commitments	<u>168,013,533</u>	<u>3,450,469</u>	<u>–</u>	<u>–</u>	<u>171,464,002</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

	Year ended 31 December 2017				Total
	Corporate banking	Retail banking	Treasury business	Others	
Operating income					
External net interest income/(expense)	3,074,065	(3,943,219)	12,944,771	–	12,075,617
Internal net interest income/(expense)	3,263,264	4,680,749	(7,944,013)	–	–
Net interest income	6,337,329	737,530	5,000,758	–	12,075,617
Net fee and commission income	1,092,152	509,817	10,789	–	1,612,758
Net trading losses	–	–	(1,121,332)	–	(1,121,332)
Net gains arising from investments	–	–	112,484	38,601	151,085
Net foreign exchange gains	–	–	475,938	–	475,938
Other operating income	23,767	–	3,799	28,051	55,617
Operating income	7,453,248	1,247,347	4,482,436	66,652	13,249,683
Operating expenses	(2,494,393)	(758,728)	(360,783)	(3,538)	(3,617,442)
Impairment losses on assets	(1,242,791)	(26,493)	(134,000)	–	(1,403,284)
Profit before tax	3,716,064	462,126	3,987,653	63,114	8,228,957
Other segment information					
– Depreciation and amortisation	272,077	84,447	14,754	–	371,278
– Capital expenditure	682,967	211,981	37,036	–	931,984

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 SEGMENT REPORTING (CONTINUED)

(a) Business Segment (Continued)

	31 December 2017				Total
	Corporate banking	Retail banking	Treasury business	Others	
Segment assets	306,888,617	31,484,360	689,886,627	384,025	1,028,643,629
Deferred tax assets					<u>1,973,802</u>
Total assets					<u><u>1,030,617,431</u></u>
Segment liabilities/total liabilities	<u>347,859,946</u>	<u>149,457,550</u>	<u>480,907,987</u>	<u>136,292</u>	<u>978,361,775</u>
Credit commitments	<u>170,781,889</u>	<u>2,246,054</u>	<u>–</u>	<u>–</u>	<u>173,027,943</u>

(b) Geographical information

The Group operates principally in mainland China with eighteen branches located in five provinces and municipalities directly under the central government, and seven subsidiaries located in Shenyang of Liaoning Province, Baoshan of Shanghai and Ningbo of Zhejiang Province respectively.

In presenting of geographical information, non-current assets are allocated based on the geographical location of the underlying assets. Operating income is allocated based on the location of the Group's entities which generate income. Geographical areas, as defined for management reporting purposes, are as follows:

- “Northeast China” refers to headquarters and the following areas serviced by subsidiaries and branches of the Bank: Shenyang, Changchun, Dalian, Anshan, Benxi, Jinzhou, Yingkou, Huludao, Panjin, Chaoyang, Fushun, Fuxin, Dandong, Liaoyang, Tieling, Shenyang Xinmin, Shenyang Shenbei, Shenyang Faku, Shenyang Liaozhong and Shengjing Consumer;
- “North China” refers to the following areas serviced by branches of the Bank: Beijing and Tianjin;
- “Others” refers to the following areas serviced by subsidiaries and branches of the Bank: Shanghai, Shanghai Baoshan, and Ningbo Jiangbei.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

38 SEGMENT REPORTING (CONTINUED)

(b) Geographical information (Continued)

	Operating income	
	2018	2017
Northeast China	13,818,965	11,526,922
North China	1,682,020	1,294,866
Others	384,481	427,895
Total	<u>15,885,466</u>	<u>13,249,683</u>

	Non-current assets (Note i)	
	31 December 2018	31 December 2017
Northeast China	5,082,828	5,169,995
North China	307,646	327,394
Others	46,304	34,121
Total	<u>5,436,778</u>	<u>5,531,510</u>

Note:

- (i) Non-current assets include property and equipment, intangible assets, long-term deferred expense and land use rights.

39 RISK MANAGEMENT

The Group is primarily exposed to credit, interest rate, currency and liquidity risks from its use of financial instruments in the normal course of the Group's operations. This note mainly presents information about the Group's exposure to each of the above risks and their sources, the Group's objectives, policies and processes for measuring and managing risks.

The Group aims to seek the appropriate balance between the risks and benefits from its use of financial instruments and minimise potential adverse effects.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

The Board of Directors (the "Board") is the highest decision-making authority within the Bank in terms of risk management and oversees the Group's risk management functions through Risk Control and Consumer Rights Protection Committee. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Senior management is the highest execution level in the risk management structure and reports directly to the Risk Control and Consumer Rights Protection Committee of the Board. Based on the risk management strategies determined by the Board, senior management is responsible for formulating and implementing risk management policies and systems, as well as supervising, identifying and controlling the risks that various businesses are exposed to.

(a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its contractual obligation or commitment to the Group. It arises primarily from credit and debt investments portfolios and guarantees granted.

Credit business

The Board is responsible for setting the Group's risk management strategy and the overall risk tolerance level. The Board also monitors the Group's risk management process and regularly assesses the Group's risk position and risk management strategies, ensures that all kinds of credit risk in various businesses are properly identified, assessed, calculated and monitored. The Credit Approval Department is responsible for credit risk management. Front-office departments such as the Corporate Banking Department, the Retail Banking Department, the Investment Banking Department and the Financial Institutions Department carry out credit businesses according to the Group's risk management policies and procedures.

The following credit risk management methods were applicable before 31 December 2017.

The Group adopts a loan risk classification approach to manage its loan portfolio risk. Loans are generally classified as normal, special mention, substandard, doubtful and loss according to their levels of risk. Substandard, doubtful and loss loans are considered to be impaired loans and advances. They are classified as such when one or more events demonstrate that there is objective evidence of a loss event. The impairment loss is assessed collectively or individually as appropriate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

The core definitions of the five categories of loans and advances are set out below:

Normal:	Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis.
Special mention:	Borrowers are currently able to service their loans and interest, although repayment may be adversely affected by specific factors.
Substandard:	Borrowers' ability to service their loans is in question and they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked.
Doubtful:	Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked.
Loss:	Principal and interest of loans cannot be recovered or only a small portion of them can be recovered after taking all possible measures or resorting to all necessary legal procedures.

The following credit risk management methods were applicable from 1 January 2018 to 31 December 2018.

Based on whether there is significant increase in credit risk and whether the asset has suffered credit impairment, the Group measures provision for loss of different assets with 12-month ECL or lifetime ECL respectively. The expected credit loss is the result of the discounted product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The definitions of these terms are as follows:

- Probability of default (PD) refers to the likelihood that a borrower will be unable to meet his repayment obligations over the next 12 months or the remaining lifetime of the loan.
- Exposure at default (EAD) is the amount that the Group should be reimbursed upon default of an obligor over the next 12 months or the remaining lifetime of the loan.
- Loss given default (LGD) refers to the expected degree of loss arising from the exposure at default which is predicted by the Group. Loss given default varies due to different types of counterparties, methods and priority of recovering debts, and the availability of collaterals or other credit support.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

The Group determines the expected credit losses by estimating the PD, LGD and EAD of individual exposure or asset portfolios in the future years. The Group multiplies these three parameters and makes adjustments according to the probability of their continuance (i.e. there is no prepayment or default at an earlier period). By adopting this approach, the Group can calculate the expected credit losses for the future years. The results of calculation for each year are then discounted to the balance sheet date and added up. The discount rate used in the calculation of ECL is the initial effective interest rate or its approximate value.

The lifetime probability of default is to deduce the marginal probability of default by using supervisory formula or conditional probability formula.

The 12-month EAD and lifetime EAD are determined based on expected repayment arrangements, which are different due to different types of products.

- In respect of the financial assets with instalment repayments and bullet repayment, the Group determines 12-month or lifetime EAD according to the repayment schedule agreed in the contract, and makes adjustment based on prediction of over-limit repayment and prepayments/refinancing made by the borrower.
- As to the off-balance sheet credit commitments, the parameter of EAD is calculated using the current exposure method, and obtained from multiplying the nominal amount of the off-balance sheet items on the balance sheet date by the credit conversion factor (CCF).

The Group determines the 12-month loss given default (LGD) and lifetime LGD based on the factors that affects post-default recovery. LGD for different product types are different.

- As to financial assets classified as guarantees, the Group determines the loss given default (LGD) according to the types of collaterals and their expected value, the discount rate at the compulsory sale, the recovery time and the estimated recovery cost.
- As to credit-based financial assets, the Group usually determines loss given default (LGD) in the product level due to the limited differences in recoverable amounts from different borrowers.

Forward-looking economic information should be considered when determining the 12-month and lifetime probability of default, exposure at default and loss given default.

The Group quarterly monitors and reviews assumptions related to the calculation of expected credit losses, including the changes in PD and the value of collaterals under the different time limits.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Credit business (Continued)

Forward-looking information included in the expected credit loss model is as follows:

- Both the assessment of significant increase in credit risk and the measurement of expected credit losses involve forward-looking information. Based on the analysis on historical data, the Group identified critical economic indicators that affect the credit risk and expected credit losses of all asset portfolios, including gross domestic product (GDP), consumer price index (CPI), and producer price index (PPI), etc. The Group identified the relations between these economic indicators and the probability of default historically by conducting regression analysis, and identified the expected probability of default by predicting the future economic indicators.
- When judging whether there is significant increase in credit risk, the Group multiplies the lifetime PD at the benchmark and under other scenarios by the weight of the scenarios, and considers the qualitative and maximum indicators. The Group measures relevant provision for loss by the weighted 12-month ECL (for stage 1) or the weighted lifetime ECL (for stage 2 and stage 3). The above weighted credit losses are calculated from multiplying the ECL under the different scenarios by the weight of the corresponding scenarios.
- Similar to other economic forecasts, there is highly inherent uncertainty in the assessment of estimated economic indicators and the probability of occurrence, and therefore, the actual results may be materially different from the forecasts. The Group believes that these forecasts reflect the Group's best estimate of possible outcomes.
- Other forward-looking factors not incorporated in above scenarios, such as the impact of regulatory and legal changes, have also been taken into account. However, they were not considered to have significant impact, and the expected credit losses were not adjusted accordingly. The Group reviews and monitors the appropriateness of the above assumptions on a quarterly basis.

Treasury Business

The Group's treasury business are exposed to the credit risk associated with the investment business and inter-bank business. The Group manages the credit risk exposures by setting credit limits to the internal credit ratings of its treasury business. Credit risk exposure is closely monitored on a systematic, real-time basis, and credit risk limits are reviewed and updated regularly.

(i) *Maximum credit risk exposure*

The maximum exposure to credit risk is represented by the carrying amount of each type of financial assets as at the end of the reporting period. The maximum exposure to credit risk in respect of those off-balance sheet items as at the end of the reporting period is disclosed in Note 41(a).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) Loans and advances to customers

Loans and advances to customers were analysed as follows as at 31 December 2018:

	31 December 2018
Gross balance of loans and advances to customers	
– ECL over the next 12 months	348,833,928
– Lifetime ECL – not credit-impaired loans	6,016,102
– Lifetime ECL – credit-impaired loans	21,747,330
	<u>376,597,360</u>
Add: Interest receivable	
– ECL over the next 12 months	1,839,265
	<u>1,839,265</u>
Less: allowance for impairment losses	
– ECL over the next 12 months	(3,640,867)
– Lifetime ECL – not credit-impaired loans	(1,200,134)
– Lifetime ECL – credit-impaired loans	(5,517,585)
	<u>(10,358,586)</u>
Net balance	
– ECL over the next 12 months	347,032,326
– Lifetime ECL – not credit-impaired loans	4,815,968
– Lifetime ECL – credit-impaired loans	16,229,745
	<u>368,078,039</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) *Loans and advances to customers (Continued)*

- (1) ECL over the next 12 months loans

	31 December 2018
Corporate loans and advances	323,599,659
Personal loans and advances	<u>25,234,269</u>
Total gross balance	<u><u>348,833,928</u></u>

- (2) Lifetime ECL – not credit-impaired loans

	31 December 2018			
	Not overdue	Less than 1 month (inclusive)	1 to 3 months (inclusive)	Total
Corporate loans and advances	30,000	3,543,656	2,420,826	5,994,482
Personal loans and advances	<u>4,900</u>	<u>–</u>	<u>16,720</u>	<u>21,620</u>
Total gross balance	<u><u>34,900</u></u>	<u><u>3,543,656</u></u>	<u><u>2,437,546</u></u>	<u><u>6,016,102</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) *Loans and advances to customers (Continued)*

(2) Lifetime ECL – not credit-impaired loans (Continued)

Fair value of collateral held against loans and advances which was lifetime ECL but not credit-impaired as at 31 December 2018 was analysed as follows:

	31 December 2018
Fair value of collateral held against loans and advances which was lifetime ECL but not credit-impaired	3,894,552

The above collaterals mainly include land, buildings, machinery and equipment, etc. The fair value of collaterals were estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) Loans and advances to customers (Continued)

(3) Lifetime ECL – credit-impaired loans

	31 December 2018
Corporate loans and advances	21,550,993
Personal loans and advances	196,337
	<hr/>
Total gross balance	21,747,330
	<hr/> <hr/>
% of total loans and advances	5.77%
	<hr/> <hr/>
Allowance for impairment losses	
– Corporate loans and advances	5,409,112
– Personal loans and advances	108,473
	<hr/>
Total	5,517,585
	<hr/> <hr/>
Fair value of collateral held against credit-impaired loans and advances	16,227,881
	<hr/> <hr/>

The above collateral mainly included land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) *Loans and advances to customers (Continued)*

Loans and advances to customers were analysed as follows as at 31 December 2017:

	31 December 2017
Gross balance of loans and advances to customers	
– Neither overdue nor impaired	274,114,939
– Overdue but not impaired	1,242,649
– Impaired	4,155,830
	<u>279,513,418</u>
Less: provision for impairment losses	
– Neither overdue nor impaired	(5,431,721)
– Overdue but not impaired	(74,665)
– Impaired	(2,224,245)
	<u>(7,730,631)</u>
Net balance	
– Neither overdue nor impaired	268,683,218
– Overdue but not impaired	1,167,984
– Impaired	1,931,585
	<u>271,782,787</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) *Loans and advances to customers (Continued)*

- (1) Neither overdue nor impaired

Credit risk of loans and advances to customers neither overdue nor impaired as at 31 December 2017 was analysed as follows:

	31 December 2017
Corporate loans and advances	259,264,919
Personal loans and advances	<u>14,850,020</u>
Total gross balance	<u><u>274,114,939</u></u>

- (2) Overdue but not impaired loans

The following tables present the overdue analysis of each type of loans and advances to customers of the Group which were overdue but not impaired as at the end of the reporting period.

	31 December 2017				Total
	Less than 1 month (inclusive)	1 month to 3 months (inclusive)	3 months to 1 year (inclusive)	More than 1 year	
Corporate loans and advances	643,356	554,146	–	–	1,197,502
Personal loans and advances	<u>24,357</u>	<u>13,391</u>	<u>7,399</u>	–	<u>45,147</u>
Total gross balance	<u><u>667,713</u></u>	<u><u>567,537</u></u>	<u><u>7,399</u></u>	<u><u>–</u></u>	<u><u>1,242,649</u></u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) *Loans and advances to customers (Continued)*

(2) Overdue but not impaired loans (Continued)

The fair value of related collateral held by the Group as security is as follows:

	31 December 2017
Fair value of collateral held against loans and advances overdue but not impaired	4,304,506

The above collateral mainly included land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

(3) Impaired loans

	31 December 2017
Corporate loans and advances	4,042,798
Personal loans and advances	113,032
Total	4,155,830
% of total loans and advances	1.49%
Allowance for impairment losses	
– Corporate loans and advances	2,111,924
– Personal loans and advances	112,321
Total	2,224,245
Fair value of collateral held against impaired loans	1,931,425

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(ii) Loans and advances to customers (Continued)

(3) Impaired loans (Continued)

The above collateral mainly included land, buildings, machinery and equipment, etc. The fair value of collateral was estimated by the Group based on the latest external valuations available, adjusted in light of disposal experience and current market conditions.

(iii) Amounts due from banks and other financial institutions

The Group adopts an internal credit rating approach in managing the credit risk of amounts due from banks and other financial institutions. The distribution according to the credit rating of amounts due from banks and non-bank financial institutions (including deposits with banks and other financial institutions, placements with banks and other financial institutions, and financial assets held under resale agreements for which counterparties are banks and non-bank financial institutions) is as follows:

	31 December 2018	31 December 2017
Carrying amount		
Neither overdue nor impaired		
– grade A to AAA	20,824,797	65,966,055
– grade B to BBB	11,000,415	24,096,843
– grade C to CCC	1,014,430	14,342
– unrated	84,519	4,505
Subtotal	32,924,161	90,081,745
Impairment loss	(9,884)	–
Total	32,914,277	90,081,745

(iv) Debt securities investments

The credit risk of debt securities investments mainly arises from the risk that the issuer might default on a payment or go into liquidation. Debt securities investments by different types of issuers are generally subject to different degrees of credit risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Treasury Business (Continued)

(iv) *Debt securities investments (Continued)*

The following tables present an analysis of the Group's total credit risk exposures of debt securities investments by types of issuers:

	31 December 2018	31 December 2017
Neither overdue nor impaired		
– Government	71,001,465	117,476,010
– Policy banks	92,872,616	109,546,697
– Banks and other financial institutions	36,286,898	166,769,910
– Corporate	222,873,433	123,086,234
Subtotal	423,034,412	516,878,851
Impairment loss	(1,429,642)	(1,329,169)
Net balance	421,604,770	515,549,682
Overdue but not impaired		
– Corporate	–	300,000
Impairment loss	–	(11,538)
Net balance	–	288,462
Impaired		
– Corporate	13,139,586	144,586
Impairment loss	(968,271)	(72,293)
Net balance	12,171,315	72,293
Total	433,776,085	515,910,437

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(b) Market risk

Market risk is the risk of loss, in respect of the Group's activities, arising from adverse movements in market rates including interest rates, exchange rates, commodity prices, stock prices and other prices. The market risk management aims to manage and monitor market risk, control the potential losses associated with market risk within the acceptable limit and maximise the risk-adjusted income.

The Board is responsible for approving the market risk management strategies and policies, determining the acceptable level of market risk and authorising the Risk Control Committee to supervise the market risk management conducted by the senior management. The Asset and Liability Management Department of the Bank is responsible for identifying, measuring, monitoring and reporting the market risk of the various business lines, providing various data on market risks and other technical support. The Risk Management Department is responsible for overall market risk management.

The Group employed sensitivity analysis, interest repricing gap analysis, foreign currency gap analysis, stress testing and effective duration analysis to measure and monitor the market risk.

Sensitivity analysis is a technique which assesses the sensitivity of the Group's overall risk profile and its risk profile with reference to the interest rate risks for different maturities.

Interest repricing gap analysis is a technique which estimates the impact of interest rate movements on the Group's current profit or loss. It is used to work out the gap between future cash inflows and outflows by categorising each of the Group's interest-bearing assets and interest-taking liabilities into different periods based on repricing dates.

Foreign currency gap analysis is a technique which estimates the impact of foreign exchange rate movements on the Group's current profit or loss. The foreign currency gap mainly arises from the currency mismatch in the Group's on/off-balance sheet items.

The results of stress testing are assessed against a set of forward-looking scenarios using stress moves in market variables. The results are used to estimate the impact on profit or loss.

Effective duration analysis is a technique which estimates the impact of interest rate movements by giving a weight to each period's exposure according to its sensitivity, calculating the weighted exposure, and summarising all periods' weighted exposures to estimate the non-linear impact of a change in interest rates on the Group's economic value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk

The Group is primarily exposed to interest rate risk arising from repricing risk in its commercial banking business and the risk of treasury position.

(1) Repricing risk

Repricing risk, which is also known as “maturity mismatch risk”, is the most common form of interest rate risk. It is caused by the differences in timing between the maturities (related to fixed interest instruments) or repricing (related to floating interest instruments) of assets, liabilities and off-balance sheet items. The mismatch of repricing timing causes the Group’s income or its inherent economic value to vary with the movement in interest rates.

The Financial Institutions Department is responsible for identifying, measuring, monitoring and managing interest rate risk. The Group regularly performs assessment on the interest rate repricing gap between the assets and liabilities that are sensitive to changes in interest rates and sensitivity analysis on the net interest income as a result of changes in interest rates. The primary objective of interest rate risk management is to minimise potential adverse effects on its net interest income or its inherent economic value caused by interest rate volatility.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

The following tables indicate the assets and liabilities analysis as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

	31 December 2018					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Assets						
Cash and deposits with central bank	97,573,501	1,373,041	96,200,460	-	-	-
Deposits with banks and other financial institutions	29,098,503	728,945	6,068,598	22,300,960	-	-
Placements with banks and other financial institutions	2,400,914	1,674	2,399,240	-	-	-
Financial assets held under resale agreements	2,146,696	1,217	2,145,479	-	-	-
Loans and advances to customers (Note (i))	368,078,039	1,839,265	328,614,488	31,235,115	5,077,313	1,311,858
Financial investments (Note (ii))	474,765,776	2,104,685	139,095,040	130,905,073	85,013,527	117,647,451
Others	11,369,511	9,198,433	676,118	1,137,672	356,031	1,257
Total assets	985,432,940	15,247,260	575,199,423	185,578,820	90,446,871	118,960,566
Liabilities						
Borrowings from central bank	(41,718,868)	(58,868)	(36,660,000)	(5,000,000)	-	-
Deposits from banks and other financial institutions	(80,993,681)	(354,887)	(34,518,743)	(46,120,051)	-	-
Placements from banks and other financial institutions	(42,821,263)	(131,720)	(39,508,953)	(3,180,590)	-	-
Financial assets sold under repurchase agreements	(32,309,138)	(32,969)	(32,074,853)	(201,316)	-	-
Deposits from customers	(524,940,548)	(10,773,551)	(256,704,734)	(134,285,588)	(123,176,666)	(9)
Debt securities issued	(186,567,225)	(516,862)	(49,872,030)	(89,078,333)	(28,900,000)	(18,200,000)
Others	(19,052,733)	(3,692,547)	(163,911)	(14,851,230)	(343,788)	(1,257)
Total liabilities	(928,403,456)	(15,561,404)	(449,503,224)	(292,717,108)	(152,420,454)	(18,201,266)
Asset-liability gap	57,029,484	(314,144)	125,696,199	(107,138,288)	(61,973,583)	100,759,300

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

	31 December 2017					
	Total	Non-interest bearing	Less than three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years
Assets						
Cash and deposits with central bank	84,201,957	1,441,459	82,760,498	-	-	-
Deposits with banks and other financial institutions	35,414,260	-	11,945,550	23,468,710	-	-
Placements with banks and other financial institutions	34,327,733	-	29,746,724	4,581,009	-	-
Financial assets held under resale agreements	20,339,752	-	20,339,752	-	-	-
Loans and advances to customers (Note (i))	271,782,787	-	227,702,963	32,366,503	10,276,698	1,436,623
Financial investments (Note (iii))	566,365,837	384,025	91,900,482	220,076,674	166,346,038	87,658,618
Others	18,185,105	17,910,795	-	274,310	-	-
Total assets	1,030,617,431	19,736,279	464,395,969	280,767,206	176,622,736	89,095,241
Liabilities						
Borrowings from central bank	(48,160,000)	-	(48,160,000)	-	-	-
Deposits from banks and other financial institutions	(153,651,596)	-	(119,853,312)	(33,685,284)	(113,000)	-
Placements from banks and other financial institutions	(51,323,948)	-	(45,516,887)	(5,807,061)	-	-
Financial assets sold under repurchase agreements	(75,623,265)	-	(75,623,265)	-	-	-
Deposits from customers	(473,580,808)	-	(239,929,811)	(70,486,761)	(163,164,208)	(28)
Debt securities issued	(140,920,240)	-	(101,323,017)	(14,397,223)	(7,000,000)	(18,200,000)
Others	(35,101,918)	(16,548,031)	(1,025,072)	(17,528,815)	-	-
Total liabilities	(978,361,775)	(16,548,031)	(631,431,364)	(141,905,144)	(170,277,208)	(18,200,028)
Asset-liability gap	52,255,656	3,188,248	(167,035,395)	138,862,062	6,345,528	70,895,213

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(1) Repricing risk (Continued)

Notes:

- (i) For the Group's loans and advances to customers, the category "Less than three months (inclusive)" as at 31 December 2018 included overdue amounts (net of provision for impairment losses) of RMB9,012 million (31 December 2017: RMB1,169 million).
- (ii) As at 31 December 2018, financial investments include financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortised cost.
- (iii) As at 31 December 2017, financial investments included available-for-sale financial assets, held-to-maturity investments and loans and receivables.

(2) Interest rate sensitivity analysis

	31 December 2018 Increase/(decrease)	31 December 2017 Increase/(decrease)
Change in profit after taxation		
Up 100 bps parallel shift in yield curves	458,086	(940,101)
Down 100 bps parallel shift in yield curves	(458,086)	940,101
	31 December 2018 Increase/(decrease)	31 December 2017 Increase/(decrease)
Change in equity		
Up 100 bps parallel shift in yield curves	(959,863)	(1,693,749)
Down 100 bps parallel shift in yield curves	1,088,948	1,729,086

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(i) Interest rate risk (Continued)

(2) Interest rate sensitivity analysis(Continued)

The sensitivity analysis above is based on simplified scenarios. This analysis measures only the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions:

- Interest rate movements apply to all financial instruments of the Group;
- An interest rate movement of one hundred basis points is based on the assumption of interest rates movement over the next 12 months;
- All assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature in the mid of the respective periods;
- There is a parallel shift in the yield curve with the changes in interest rates;
- There are no other changes to the assets and liabilities portfolio;
- Other variables (including exchange rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the management.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk

The Group's currency risk mainly arises from foreign currency loans and deposits from customers. The Group manages currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

The Group's currency exposures as at the end of the reporting period are as follows:

	31 December 2018			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	97,145,881	311,759	115,861	97,573,501
Deposits with banks and other financial institutions	27,449,084	1,315,897	333,522	29,098,503
Placements with banks and other financial institutions	2,400,914	–	–	2,400,914
Financial assets held under resale agreements	2,146,696	–	–	2,146,696
Loans and advances to customers	363,151,107	3,568,749	1,358,183	368,078,039
Financial investments (Note (i))	474,765,776	–	–	474,765,776
Others	9,215,442	250,466	1,903,603	11,369,511
Total assets	976,274,900	5,446,871	3,711,169	985,432,940
Liabilities				
Borrowings from central bank	(41,718,868)	–	–	(41,718,868)
Deposits from banks and other financial institutions	(80,993,634)	–	(47)	(80,993,681)
Placements from banks and other financial institutions	(12,611,720)	(28,822,354)	(1,387,189)	(42,821,263)
Financial assets sold under repurchase agreements	(32,309,138)	–	–	(32,309,138)
Deposits from customers	(522,094,148)	(590,912)	(2,255,488)	(524,940,548)
Debt securities issued	(186,567,225)	–	–	(186,567,225)
Others	(17,217,342)	(1,792,518)	(42,873)	(19,052,733)
Total liabilities	(893,512,075)	(31,205,784)	(3,685,597)	(928,403,456)
Net position	82,762,825	(25,758,913)	25,572	57,029,484
Off-balance sheet credit commitments	165,101,258	4,730,096	1,632,648	171,464,002

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

	31 December 2017			
	RMB	USD (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Assets				
Cash and deposits with central bank	83,446,636	730,893	24,428	84,201,957
Deposits with banks and other financial institutions	31,947,910	2,968,109	498,241	35,414,260
Placements with banks and other financial institutions	21,970,000	12,356,172	1,561	34,327,733
Financial assets held under resale agreements	20,339,752	–	–	20,339,752
Loans and advances to customers	269,091,209	1,945,478	746,100	271,782,787
Financial investments (Note (ii))	564,535,783	1,830,054	–	566,365,837
Others	18,007,259	49,566	128,280	18,185,105
Total assets	<u>1,009,338,549</u>	<u>19,880,272</u>	<u>1,398,610</u>	<u>1,030,617,431</u>
Liabilities				
Borrowings from central bank	(48,160,000)	–	–	(48,160,000)
Deposits from banks and other financial institutions	(148,162,822)	(5,488,728)	(46)	(153,651,596)
Placements from banks and other financial institutions	(12,060,000)	(38,724,786)	(539,162)	(51,323,948)
Financial assets sold under repurchase agreements	(75,623,265)	–	–	(75,623,265)
Deposits from customers	(470,911,217)	(1,904,049)	(765,542)	(473,580,808)
Debt securities issued	(140,920,240)	–	–	(140,920,240)
Others	(34,765,456)	(270,433)	(66,029)	(35,101,918)
Total liabilities	<u>(930,603,000)</u>	<u>(46,387,996)</u>	<u>(1,370,779)</u>	<u>(978,361,775)</u>
Net position	<u>78,735,549</u>	<u>(26,507,724)</u>	<u>27,831</u>	<u>52,255,656</u>
Off-balance sheet credit commitments	<u>168,883,055</u>	<u>3,074,878</u>	<u>1,070,010</u>	<u>173,027,943</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(b) Market risk (Continued)

(ii) Currency risk (Continued)

Note:

- (i) As at 31 December 2018, financial investments include financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets measured at amortised cost.
- (ii) As at 31 December 2017, financial investments include available-for-sale financial assets, held-to-maturity investments and loans and receivables.

	31 December 2018 Increase/(decrease)	31 December 2017 Increase/(decrease)
Change in profit after taxation and equity		
Up 100 bps parallel shift in yield curves	(28,121)	(30,394)
Down 100 bps parallel shift in yield curves	28,121	30,394

The sensitivity analysis mentioned above is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions as set out below:

- The foreign exchange sensitivity is the gain and loss recognised as a result of one hundred basis points fluctuation in the foreign currency exchange rates against RMB;
- The fluctuation of exchange rates by one hundred basis points is based on the assumption of exchange rates movement over the next 12 months;
- The exchange rates against RMB for the US dollars and other foreign currencies change in the same direction simultaneously, and thus other foreign currencies are converted into US dollars through sensitivity analysis;
- Other variables (including interest rates) remain unchanged; and
- The analysis does not take into account the effect of risk management measures taken by the Group.

Due to the assumptions adopted, actual changes in the Group's profit or loss and equity resulting from the increase or decrease in foreign exchange rates may vary from the estimated results of this sensitivity analysis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk

Liquidity risk is the risk that a commercial bank is unable to obtain funds on a timely basis or obtain funds at a reasonable cost to meet repayment obligations or sustain its asset business. This risk exists even if a bank's solvency remains strong.

The Group centrally manages the Bank's liquidity risk at the head office through a liquidity risk governance structure consisting of Board of Directors, Board of Supervisors, senior management, as well as the liquidity risk management structure consisting of the Asset and Liability Management Committee, Asset and Liability Management Department and Risk Management Department at the head office:

- The Asset and Liability Management Committee is the Bank's liquidity risk management body that is responsible for developing, and regularly assessing and monitoring the implementation of liquidity risk management policies and measures;
- As the leading department in liquidity risk management, the Asset and Liability Management Department is responsible for developing and implementing the relevant system; identifying, measuring and monitoring the liquidity risk and the implementation of limitations; performing stress testing, risk analysis and reporting; as well as organizing the daily management of the liquidity risk by business departments ;
- The Risk Management Department includes liquidity risk in a comprehensive risk management system, initiates ideas on limitation management of the liquidity risk, and arranges for performance evaluation.

The Group manages liquidity risk by managing the term structure of assets and liabilities, as well as dynamically monitoring liquidity indicators such as loan-to-deposit ratio, liquidity ratio, liquidity coverage ratio, excess reserves ratio, inter-bank loan to saving ratio, credit quality ratio, liquidity gap ratio, etc. The Group forecasts liquidity weekly, analyses liquidity monthly, and performs stress testing of liquidity risk quarterly.

The Group also formulates liquidity risk emergency plan to ensure sufficient liquidity under various market conditions.

A substantial portion of the Group's assets are funded by deposits from customers. These deposits from customers, which have been growing in recent years, are widely diversified in terms of type and duration and represent a major source of funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis

The following tables provide an analysis of assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment at the end of the reporting period:

	31 December 2018							Total
	Indefinite (Note(ii))	Repayable on demand (Note(ii))	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Assets								
Cash and deposits with central bank	65,066,292	32,274,988	-	36,894	195,327	-	-	97,573,501
Deposits with banks and other financial institutions	-	2,202,980	1,206,879	2,814,669	22,873,975	-	-	29,098,503
Placements with banks and other financial institutions	-	-	2,400,914	-	-	-	-	2,400,914
Financial assets held under resale agreements	-	-	2,146,696	-	-	-	-	2,146,696
Loans and advances to customers	19,831,248	4,622,081	13,801,290	38,137,902	141,896,008	122,633,137	27,156,373	368,078,039
Financial investments (Note (i))	7,299,486	7,818,115	12,960,647	86,105,924	93,836,575	92,446,143	174,298,886	474,765,776
Others	8,379,552	221,614	654,826	90,440	1,665,791	356,031	1,257	11,369,511
Total assets	100,576,578	47,139,778	33,171,252	127,185,829	260,467,676	215,435,311	201,456,516	985,432,940
Liabilities								
Borrowings from central bank	-	-	(36,711,803)	-	(5,007,065)	-	-	(41,718,868)
Deposits from banks and other financial institutions	-	(6,098,465)	(8,808,596)	(19,763,597)	(46,323,023)	-	-	(80,993,681)
Placements from banks and other financial institutions	-	-	(34,312,728)	(5,297,901)	(3,210,634)	-	-	(42,821,263)
Financial assets sold under repurchase agreements	-	-	(31,932,939)	(174,677)	(201,522)	-	-	(32,309,138)
Deposits from customers	-	(183,600,265)	(50,549,572)	(27,933,391)	(137,099,760)	(125,757,551)	(9)	(524,940,548)
Debt securities issued	-	-	(23,271,819)	(26,615,963)	(89,579,443)	(28,900,000)	(18,200,000)	(186,567,225)
Others	-	(1,892,951)	(1,483,621)	(158,677)	(15,073,952)	(343,788)	(99,744)	(19,052,733)
Total liabilities	-	(191,591,681)	(187,071,078)	(79,944,206)	(296,495,399)	(155,001,339)	(18,299,753)	(928,403,456)
Long/(short) position	100,576,578	(144,451,903)	(153,899,826)	47,241,623	(36,027,723)	60,433,972	183,156,763	57,029,484
Notional amount of derivatives	-	-	71,849,665	49,574,825	242,725,845	52,298,960	100,000	416,549,295

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

	31 December 2017							Total
	Indefinite (Note(ii))	Repayable on demand (Note(iii))	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years	
Assets								
Cash and deposits with central bank	56,002,369	27,567,765	-	-	631,823	-	-	84,201,957
Deposits with banks and other financial institutions	-	3,381,550	4,876,000	3,688,000	23,468,710	-	-	35,414,260
Placements with banks and other financial institutions	-	-	23,276,758	6,469,966	4,581,009	-	-	34,327,733
Financial assets held under resale agreements	-	-	20,339,752	-	-	-	-	20,339,752
Loans and advances to customers	2,471,526	628,043	14,392,594	22,390,842	123,186,097	90,363,761	18,349,924	271,782,787
Financial investments (Note (ii))	456,318	288,462	21,692,926	66,883,333	166,501,050	221,666,104	88,877,644	566,365,837
Others	7,840,532	323,833	1,536,251	1,904,696	6,373,836	205,957	-	18,185,105
Total assets	66,770,745	32,189,653	86,114,281	101,336,837	324,742,525	312,235,822	107,227,568	1,030,617,431
Liabilities								
Borrowings from central bank	-	-	(37,340,000)	(10,820,000)	-	-	-	(48,160,000)
Deposits from banks and other financial institutions	-	(5,835,468)	(63,953,890)	(50,063,954)	(33,685,284)	(113,000)	-	(153,651,596)
Placements from banks and other financial institutions	-	-	(36,665,882)	(8,851,005)	(5,807,061)	-	-	(51,323,948)
Financial assets sold under repurchase agreements	-	-	(75,188,077)	(435,188)	-	-	-	(75,623,265)
Deposits from customers	-	(176,001,352)	(22,770,177)	(41,158,282)	(70,486,761)	(163,164,208)	(28)	(473,580,808)
Debt securities issued	-	-	(61,174,101)	(37,148,916)	(14,397,223)	(10,000,000)	(18,200,000)	(140,920,240)
Others	-	(4,740,002)	(2,639,107)	(3,662,393)	(20,158,724)	(3,804,112)	(97,580)	(35,101,918)
Total liabilities	-	(186,576,822)	(299,731,234)	(152,139,738)	(144,535,053)	(177,081,320)	(18,297,608)	(978,361,775)
Long/(short) position	66,770,745	(154,387,169)	(213,616,953)	(50,802,901)	180,207,472	135,154,502	88,929,960	52,255,656
Notional amount of derivatives	-	-	64,327,603	9,730,648	53,407,661	23,032,656	-	150,498,568

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(i) Maturity analysis (Continued)

Notes:

- (i) As at 31 December 2018, financial investments include financial investments at fair value through profit or loss, financial investments at fair value through other comprehensive income and financial investments measured at amortised cost. The “indefinite” period amount represents the balance being credit-impaired or overdue for more than one month, and the balance overdue within one month (inclusive) but not credit-impaired is included in “repayable on demand”.
- (ii) As at 31 December 2017, financial investments include available-for-sale financial assets, held-to-maturity investments and loans and receivables. The “indefinite” period amount represents the balance being impaired or overdue for more than one month, and the balance overdue within one month (inclusive) but not impaired is included in “repayable on demand”.
- (iii) For cash and deposits with central bank, the indefinite period amount represents statutory deposit reserves and fiscal deposits maintained with the PBOC. Equity investments are reported under indefinite period. For loans and advances to customers, the “indefinite” period amount represents the balance being impaired or overdue for more than one month, and the balance not impaired but overdue within one month is included in “repayable on demand”.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(ii) Analysis on contractual undiscounted cash flows of non-derivative financial liabilities

The following tables provide an analysis of the contractual undiscounted cash flow of the non-derivative financial liabilities at the end of the reporting period:

	31 December 2018					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Borrowings from central bank	(41,857,903)	(36,690,611)	-	(5,167,292)	-	-
Deposits from banks and other financial institutions	(82,395,638)	(14,893,380)	(19,887,405)	(47,614,853)	-	-
Placements from banks and other financial institutions	(42,951,285)	(34,342,188)	(5,332,531)	(3,276,566)	-	-
Financial assets sold under repurchase agreements	(33,796,942)	(33,796,942)	-	-	-	-
Deposits from customers	(525,755,526)	(229,359,511)	(29,794,093)	(138,283,919)	(128,317,993)	(10)
Debt securities issued	(198,466,732)	(23,777,508)	(27,207,437)	(94,607,987)	(32,447,840)	(20,425,960)
Other financial liabilities	(18,802,145)	(1,640,363)	(1,266,319)	(14,765,692)	-	(1,129,771)
Total non-derivative financial liabilities	(944,026,171)	(374,500,503)	(83,487,785)	(303,716,309)	(160,765,833)	(21,555,741)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(ii) Analysis on contractual undiscounted cash flows of non-derivative financial liabilities (Continued)

	31 December 2017					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Borrowings from central bank	(48,857,141)	(37,717,747)	(11,139,394)	-	-	-
Deposits from banks and other financial institutions	(156,402,978)	(70,293,718)	(51,158,598)	(34,835,854)	(114,808)	-
Placements from banks and other financial institutions	(51,649,828)	(36,749,248)	(8,958,670)	(5,941,910)	-	-
Financial assets sold under repurchase agreements	(75,662,739)	(75,227,347)	(435,392)	-	-	-
Deposits from customers	(492,659,131)	(198,783,775)	(42,296,870)	(72,295,719)	(179,282,725)	(42)
Debt securities issued	(150,051,680)	(61,465,960)	(37,550,000)	(15,838,960)	(13,883,840)	(21,312,920)
Other financial liabilities	(19,490,410)	(659,930)	(1,167,050)	(17,663,430)	-	-
Total non-derivative financial liabilities	(994,773,907)	(480,897,725)	(152,705,974)	(146,575,873)	(193,281,373)	(21,312,962)

This analysis of the non-derivative financial assets and liabilities by contractual undiscounted cash flow might vary from actual results.

(iii) Analysis on contractual undiscounted cash flows of derivatives

The Group's derivatives that will be settled on a net basis include:

- Interest rate swaps

The Group's derivatives that will be settled on a gross basis include:

- Currency swaps
- Foreign exchange forwards
- Precious metal derivatives

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(iii) Analysis on contractual undiscounted cash flows of derivatives (Continued)

The following tables analyse the Group's contractual undiscounted cash flows of derivative financial instruments to be settled on a net and gross basis as at the end of the reporting period.

	31 December 2018					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Derivatives settled on net basis						
Interest rate swaps	(24,035)	(1,898)	(9,473)	(9,735)	(2,929)	-
Derivatives settled on gross basis						
Currency swaps and foreign exchange forwards						
- cash outflow	(165,587,874)	(64,023,658)	(16,472,747)	(83,030,817)	(2,060,652)	-
- cash inflow	164,852,020	62,670,923	16,502,932	83,619,205	2,058,960	-
Precious metal derivatives						
- cash outflow	(15,918,789)	-	-	(15,918,789)	-	-
- cash inflow	14,608,390	-	-	14,608,390	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

(iii) Analysis on contractual undiscounted cash flows of derivatives (Continued)

	31 December 2017					
	Contractual undiscounted cash flow	Within one month (inclusive)	Between one month and three months (inclusive)	Between three months and one year (inclusive)	Between one year and five years (inclusive)	More than five years and indefinite
Derivatives settled on net basis						
Interest rate swaps	(5,910)	-	-	(3,135)	(2,775)	-
Derivatives settled on gross basis						
Currency swaps and foreign exchange forwards						
- cash outflow	(46,081,440)	(29,658,443)	(6,977,354)	(9,445,643)	-	-
- cash inflow	45,439,585	29,329,556	6,805,943	9,304,086	-	-
Precious metal derivatives						
- cash outflow	(18,718,536)	-	-	(18,718,536)	-	-
- cash inflow	19,124,940	-	-	19,124,940	-	-

(d) Operational risk

Operational risk refers to the risk of losses associated with internal process deficiencies, personnel mistakes and information system failures, or impact from other external events.

The Group has built “Three Lines of Defense for Risk Management” mainly involving business departments, the Compliance Department and the Internal Audit Department in risk management, and established a reporting mechanism between the Compliance Department and business departments, as well as between the head office and branches.

The Group has formulated operational risk management policies and procedures, aiming to identify, assess, monitor, control and mitigate the operational risk, and reduce losses associated with the operational risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(d) Operational risk (Continued)

The Group's measures to manage the operational risk mainly include:

- establishing and improving the risk management system, strictly separating responsibilities of the front, middle and back office, and optimising business procedures and risk management procedures;
- making use of risk alert system and paying attention to risk position and early risk alert on each aspect of business; updating operational risk guidelines from time to time; carrying out centralised risk management on major business areas so as to reduce business operational risk;
- establishing a supervision system combining "on-site and off-site", "regular and special", "self and external" examinations, identifying, monitoring, collecting risk factors and risk signals in the course of business operations, using centralised operational risk management tools, supervising and evaluating the sufficiency and effectiveness of operational risk management;
- establishing an expertise grade appraisal system for all employees, and selecting qualified employees through strict qualification examination and professional evaluation in accordance with the expertise and skills required by the various positions; and
- establishing a mechanism for emergency management and business continuity.

(e) Capital management

The Group manages capital mainly through capital adequacy ratio and return on equity ratio. Capital adequacy ratio is at the core of the Group's capital management, reflecting capacity of the Group for prudent operation and risk prevention. Return on equity ratio reflects the profitability of equity. The main objective of capital management is to maintain a balanced reasonable capital amount and structure in line with the business development and expected return on equity.

The Group follows the principles below with regard to capital management:

- monitor levels of asset quality based on the Group's business strategy and maintain adequate capital to support the implementation of the Group's strategic development plan and meet the regulatory requirements; and
- effectively identify, quantify, monitor, mitigate and control the major risks to which the Group is exposed, and maintain the appropriate level of capital after considering the Group's risk exposure and risk management needs.

The Group monitors the capital adequacy ratio periodically and adjusts the capital management plan when necessary to ensure the capital adequacy ratio meets both the regulatory requirements and business development demand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(e) Capital management (Continued)

The Group calculates the capital adequacy ratios as at 31 December 2018 in accordance with the Regulation Governing Capital of Commercial Banks (Provisional)(商業銀行資本管理辦法試行) issued by the former CBRC in 2012 and relevant requirements promulgated by the former CBRC as follows:

	Note	31 December 2018	31 December 2017
Total core tier-one capital			
– Share capital		5,796,680	5,796,680
– Qualifying portion of capital reserve		11,855,505	11,855,505
– Surplus reserve		6,110,162	5,352,502
– General reserve		12,571,882	11,034,031
– Fair value reserve		1,122,587	(335,375)
– Provision reserve		5,311	–
– Retained earnings		19,009,618	17,984,108
– Qualifying portions of non-controlling interests		33,468	31,285
– Others		(13,877)	(6,076)
Core tier-one capital		56,491,336	51,712,660
Core tier-one capital deductions		(118,219)	(108,088)
Net core tier-one capital		56,373,117	51,604,572
Other tier-one capital		–	–
Net tier-one capital		56,373,117	51,604,572
Tier-two capital			
– Qualifying portions of tier-two capital instruments issued		18,200,000	18,200,000
– Surplus provision for loan impairment		3,917,068	3,574,801
Net tier-two capital		22,117,068	21,774,801
Net capital base		78,490,185	73,379,373
Total risk weighted assets	39(e)(i)	661,889,166	571,122,793
Core tier-one capital adequacy ratio		8.52%	9.04%
Tier-one capital adequacy ratio		8.52%	9.04%
Capital adequacy ratio		11.86%	12.85%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

39 RISK MANAGEMENT (CONTINUED)

(e) Capital management (Continued)

Notes:

- (i) Both the on-balance and off-balance sheet risk-weighted assets are measured using different risk weights, which are determined according to the credit, market and other risks associated with each asset and counterparty as well as any eligible collateral or guarantees.
- (ii) Pursuant to the Notification on Matters Related to the Implementation of the Regulation Governing Capital of Commercial Banks (Provisional) in the Transitional Period (關於實施《商業銀行資本管理辦法試行》過渡期安排相關事項的通知), the former CBRC requires that the capital adequacy ratio, tier-one capital adequacy ratio and core tier-one capital adequacy ratio for commercial banks shall not fall below 10.5%, 8.5% and 7.5% at 31 December 2018 and 10.1%, 8.1% and 7.1% at 31 December 2017.

40 FAIR VALUE

(a) Methods and assumptions for measurement of fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. 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: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group has established policies and internal controls with respect to the measurement of fair values, which specified the framework of fair value measurement of financial instruments, fair value measurement methodologies and procedures.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

40 FAIR VALUE (CONTINUED)

(a) Methods and assumptions for measurement of fair value (Continued)

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Debt securities investments

The fair values of debt securities that are traded in an active market are based on their quoted market prices in an active market at the end of the reporting period.

(ii) Receivables and other non-derivative financial assets

Fair values are estimated as the present value of the future cash flows, discounted at the market interest rates at the end of the reporting period.

(iii) Debt securities issued and other non-derivative financial liabilities

Fair values of debt securities issued are based on their quoted market prices or the present value of estimated future cash flows. The fair values of other non-derivative financial liabilities are valued at the present value of estimated future cash flows. The discount rates are based on the market interest rates at the end of the reporting period.

(iv) Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, foreign exchange forwards, swaps and options, etc. The most frequently applied valuation techniques include discounted cash flow model and Black-Scholes model. The models incorporate various inputs including foreign exchange spot and forward rates, foreign exchange rate volatility, interest rate yield curves, etc.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

40 FAIR VALUE (CONTINUED)

(b) Financial instruments recorded at fair value

The following tables show an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	31 December 2018			Total
	Level 1	Level 2	Level 3	
Assets				
Derivative financial assets				
– currency derivatives	–	1,247,873	–	1,247,873
– interest rate swaps	–	433,617	–	433,617
– precious metal derivatives	–	489,588	–	489,588
Financial assets at fair value through profit or loss				
– debt instruments	–	1,434,344	–	1,434,344
– investment funds	34,480,163	–	–	34,480,163
– others	–	–	115,776,178	115,776,178
Financial assets at fair value through other comprehensive income				
– debt instruments	–	57,852,925	–	57,852,925
– equity instruments	–	–	2,072,175	2,072,175
Total	34,480,163	61,458,347	117,848,353	213,786,863
Liabilities				
Financial liabilities at fair value through profit or loss				
– debt instruments	–	(14,601,560)	–	(14,601,560)
Derivative financial liabilities				
– currency derivatives	–	(282,226)	–	(282,226)
– interest rate swaps	–	(476,400)	–	(476,400)
Total	–	(15,360,186)	–	(15,360,186)

During the year ended 31 December 2018, there were no significant transfers between instruments in Level 1 and Level 2.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

40 FAIR VALUE (CONTINUED)

(b) Financial instruments recorded at fair value (Continued)

	31 December 2017			Total
	Level 1	Level 2	Level 3	
Assets				
Derivative financial assets				
– currency derivatives	–	302,667	–	302,667
– interest derivatives	–	1,550	–	1,550
– precious metal derivatives	–	125,169	–	125,169
Available-for-sale financial assets				
– debt instruments	–	53,273,704	–	53,273,704
– investment funds	50,071,375	–	–	50,071,375
Total	50,071,375	53,703,090	–	103,774,465
Liabilities				
Financial liabilities at fair value through profit or loss	–	(18,553,887)	–	(18,553,887)
Derivative financial liabilities				
– currency derivatives	–	(1,142,050)	–	(1,142,050)
– interest derivatives	–	(7,460)	–	(7,460)
– precious metal derivatives	–	(119,369)	–	(119,369)
Total	–	(19,822,766)	–	(19,822,766)

During the year ended 31 December 2017, there were no significant transfers between instruments in Level 1 and Level 2.

(c) Level 2 fair value measurement

A majority of the debt instruments classified as level 2 are RMB bonds. The fair value of these bonds are determined based on the valuation results provided by China Central Depository & Clearing Co., Ltd., which are determined based on a valuation technique for which all significant inputs are observable market data. This level also includes a majority of OTC derivative contracts, the most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. Input parameters like ChinaBond interbank yield curves, LIBOR yield curves or counterparty credit risk are sourced from Bloomberg and Reuters. Financial liabilities at fair value through profit or loss mainly includes the financial liabilities related to precious metals, of which the fair value is determined based on the closing price provided by Shanghai Gold Exchange.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

40 FAIR VALUE (CONTINUED)

(d) Fair value of financial assets and liabilities not carried at fair value

- (i) Cash and deposits with central bank, deposits and placements with/from banks and other financial institutions, financial assets held under resale agreements and sold under repurchase agreements, borrowings from central bank and financial investments measured as amortised cost.

Given that these financial assets and financial liabilities mainly mature within one year or adopt floating interest rates, their carrying amounts approximate their fair value.

(ii) **Loans and advances to customers**

The fair value of loans and advances to customers is estimated based on future cash flows expected to be received which is discounted at current market rates. Majority of the loans and advances to customers are repriced at least annually to the market rate. Accordingly, their carrying values approximate their fair values.

(iii) **Financial assets measured at amortised cost**

The fair values of financial assets measured at amortised cost are estimated on the basis of pricing models or discounted cash flows in the absence of any other relevant observable market data if the market value is not available.

(iv) **Held-to-maturity investments**

The fair value for held-to-maturity investments is based on "bid" market prices or brokers'/dealers' price quotations. If relevant market information is not available, the fair value is based on quote price of security products with similar characteristics such as credit risk, maturities and yield.

(v) **Available-for-sale equity instruments**

Available-for-sale equity investments are unlisted shares. There is no active market for these investments and it is the Group's intention to dispose of them as opportunities arise.

(vi) **Deposits from customers**

The fair value of checking, savings and short-term money market accounts is the amount payable on demand at the end of the reporting period. The fair value of fixed interest-bearing deposits without quoted market prices is estimated based on discounted cash flows using interest rates for new deposits with similar remaining maturities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

40 FAIR VALUE (CONTINUED)

(d) Fair value of financial assets and liabilities not carried at fair value (Continued)

(vii) Debt securities issued

Fair values of debt securities issued are based on quoted market prices. For debt securities where quoted market prices are not available, a discounted cash flow model is used to calculate their fair value using current market rates appropriate for debt securities with similar remaining maturities.

The following tables summarise the carrying amounts, the fair value and the analysis by level of the fair value hierarchy of held-to-maturity investments and debt securities issued:

	31 December 2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Financial assets measured at amortised cost	263,149,991	265,209,228	–	154,190,678	111,018,550
Financial liabilities					
Debt securities issued					
– tier two capital bonds and financial bonds	52,244,737	52,206,828	–	52,206,828	–
– certificates of interbank deposit	134,322,488	133,220,023	–	133,220,023	–
Total	186,567,225	185,426,891	–	185,426,891	–

	31 December 2017				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets					
Held-to-maturity investments	224,536,165	218,352,067	–	218,352,067	–
Financial liabilities					
Debt securities issued					
– tier two capital bonds and financial bonds	25,200,000	24,335,804	–	24,335,804	–
– certificates of interbank deposit	115,720,240	114,346,961	–	114,346,961	–
Total	140,920,240	138,682,765	–	138,682,765	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

41 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Credit commitments

The Group's credit commitments take the form of bank acceptances, credit card limits, letters of credit and letters of guarantees.

Acceptances comprise of undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from its customers. The contractual amounts of credit card commitments represent the amounts should the contracts be fully drawn upon. The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

	31 December 2018	31 December 2017
Bank acceptances	153,887,487	159,837,668
Letters of guarantees	5,760,968	4,559,588
Letters of credit	8,365,078	6,384,633
Unused credit card commitments	<u>3,450,469</u>	<u>2,246,054</u>
Total	<u><u>171,464,002</u></u>	<u><u>173,027,943</u></u>

The Group may be exposed to credit risk in all the above credit businesses. As the facilities may expire without being drawn upon, the total of the contractual amounts shown above is not representative of expected future cash outflows.

(b) Credit risk-weighted amount

	31 December 2018	31 December 2017
Credit risk-weighted amount of contingent liabilities and commitments	<u><u>76,399,414</u></u>	<u><u>95,485,164</u></u>

The credit risk weighted amount represents the amount calculated with reference to the guidelines issued by the former CBRC. The risk weights are determined in accordance with the credit status of the counterparties, the maturity profile and other factors. The risk weights range from 0% to 150% for credit commitments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

41 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(c) Operating lease commitments

As at 31 December 2018 and 31 December 2017, the future minimum lease payments under non-cancellable operating leases for properties of the Group are as follows:

	31 December 2018	31 December 2017
Within one year (inclusive)	111,613	144,113
After one year but within five years (inclusive)	432,763	408,055
After five years	140,561	118,177
Total	684,937	670,345

(d) Capital commitments

As at 31 December 2018 and 31 December 2017, the authorised capital commitments of the Group are as follows:

	31 December 2018	31 December 2017
Contracted but not paid for	468,077	484,443
Approved but not contracted for	10,567	22,161
Total	478,644	506,604

(e) Outstanding litigations and disputes

As at 31 December 2018 and 31 December 2017, there are no significant legal proceedings outstanding against the Bank and/or its subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

41 COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(f) Pledged assets

	31 December 2018	31 December 2017
Investment securities	146,158,436	230,677,111
Discounted bills	395,972	–
Total	<u>146,554,408</u>	<u>230,677,111</u>

Some of the Group's assets are pledged as collateral under repurchase agreements and deposits from customers.

The Group maintains statutory deposit reserves with the PBOC as required (Note 14). These deposits are not available for the Group's daily operations.

The Group's pledged assets in relation to the purchase of bills under resale agreements can be sold or repledged. As at 31 December 2018 and 31 December 2017, the pledged assets were not sold or repledged, which it has an obligation to repurchase on due.

42 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

(a) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds an interest in some structured entities sponsored by third party institutions through investments in the notes issued by these structured entities. Such structured entities include investment management products under trust scheme, investment management products managed by securities companies and wealth management products issued by financial institutions. The Group does not consolidate these structured entities. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors and financed through the issue of notes to investors.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

42 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

(a) Structured entities sponsored by third party institutions in which the Group holds an interest (Continued)

The following tables set out an analysis of the carrying amounts of interests held by the Group as at 31 December 2018 and 31 December 2017 in the structured entities sponsored by third party institutions, as well as an analysis of the line items in the statement of financial position in which relevant assets are recognised:

	31 December 2018		
	Financial investments	Carrying amount	Maximum exposure
Investment management products managed by securities companies	131,211,637	131,211,637	131,211,637
Investment management products under trust scheme	87,960,574	87,960,574	87,960,574
Wealth management products issued by financial institutions	10,485,410	10,485,410	10,485,410
Total	229,657,621	229,657,621	229,657,621

	31 December 2017		
	Financial investments	Carrying amount	Maximum exposure
Investment management products managed by securities companies	137,276,867	137,276,867	137,276,867
Investment management products under trust scheme	99,736,701	99,736,701	99,736,701
Wealth management products issued by financial institutions	2,500,000	2,500,000	2,500,000
Total	239,513,568	239,513,568	239,513,568

The maximum exposures to loss in the above investment management products and wealth management products are the carrying amounts of the assets held by the Group at the end of the reporting period in accordance with the line items of these assets recognised in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

42 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES (CONTINUED)

(b) Structured entities sponsored by the Group in which the Group does not consolidate but holds an interest

The types of unconsolidated structured entities sponsored by the Group include non-principal-guaranteed wealth management products. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These structured entities are financed through the issue of notes to investors. Interest held by the Group includes fees charged by providing management services.

During the year ended 31 December 2018, the amount of fee and commission income received from the above mentioned structured entities by the Group is RMB361.70 million (2017: RMB479.53 million).

As at 31 December 2018, the amount of assets held by unconsolidated non-principal-guaranteed wealth management products which are sponsored by the Group is RMB52,286 million (31 December 2017: RMB43,702 million).

During the year ended 31 December 2018, the aggregated amount of non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2018, but matured before 31 December 2018, is RMB52,087 million (2017: RMB64,060 million).

43 CONSOLIDATED STRUCTURED ENTITIES

The Group has consolidated certain structured entities which are principal-guaranteed wealth management products. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties. The Group does not hold any shares of the principal-guaranteed wealth management products, however, the Group has the authority to exercise the right of making investment decisions as a main administrator, and the proportion of the aggregate economic interests of the Group in the structured entities is high. The Group concludes that these structured entities shall be consolidated.

As at 31 December 2018, the principal-guaranteed wealth management products managed and consolidated by the Group amounted to RMB4,766 million (31 December 2017: RMB3,165 million). These wealth management products mainly invested in deposits with banks and other financial institutions and debt securities. The financial impact of these principal-guaranteed wealth management product on the Group's financial performance is not significant.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

44 FIDUCIARY ACTIVITIES

The Group commonly acts as a trustee, or in other fiduciary capacities, that result in its holding or managing assets on behalf of individuals, trusts and other institutions. These assets and any gains or losses arising thereon are not included in these financial statements as they are not the Group's assets.

As at 31 December 2018, the entrusted loans balance of the Group is RMB3,251 million (31 December 2017: RMB6,680 million).

45 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Refer to the note 45 of the Group's financial statements for the year ended 31 December 2017 for the significant accounting estimates and judgements under IAS39.

(a) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI and with exposure arising from loan commitments and financial guarantee contracts issued, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (the likelihood of customers defaulting and the resulting losses). Refer to Note 39(a) for the explanation of the assumptions and estimation used in measuring ECL.

(b) Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis, and option pricing models. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

45 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(c) Income taxes

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account tax legislation. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(d) Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgments are exercised over the asset's, related operating income and expenses and discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of related operating income and expenses based on reasonable and supportable assumption.

(e) Depreciation and amortisation

Property and equipment and intangible assets are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

45 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(f) Consolidation of structured entities

Structured entities are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entities, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement.

When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. The Group is deemed to be a principal, and hence controls and consolidates the structured entity, when it acts as manager and cannot be removed without cause, has variable returns through significant unit holdings and/or a guarantee, and is able to influence the returns of the structured entities by exercising its power.

46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, Leases	1 January 2019
IFRIC 23, Uncertainty over income tax treatments	1 January 2019

(a) IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases, which replaces the current guidance in IAS 17. The new standard requires the companies to bring leases on-balance sheet for lessees. The new standard also makes changes in accounting over the life of the lease, and introduces a stark dividing line between leases and service contracts.

Under IFRS 16 there is no longer a distinction between finance leases and operating leases so far as lessees are concerned. Instead, subject to practical expedients, a lessee recognises all leases on-balance sheet by recognising a right-of-use (ROU) asset and lease liability.

Lessor accounting is substantially unchanged – i.e. lessors continue to classify leases as finance and operating leases. However, there are a number of changes in the details of lessor accounting. For example, lessors apply the new definition of a lease, sale-and-leaseback guidance, sub-lease guidance and disclosure requirements.

The standard is expected to have no material impact on financial position and financial performance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

(b) IFRIC 23, Uncertainty over income tax treatments

This Interpretation provides guidance on how to apply IAS 12, Income taxes when there is uncertainty over whether a tax treatment will be accepted by the tax authority.

Under the Interpretation, the key test is whether it is probable that the tax authority will accept the tax treatment.

If it is probable, then the entity should measure current and deferred tax consistently with the tax treatment in its tax return.

If it is not probable, then the entity should reflect the effect of uncertainty in its accounting for income tax by using the “expected value” approach or the “the most likely amount” approach – whichever better predicts the resolution of the uncertainty and in that case the tax amounts in the financial statements will not be the same as the amounts in the tax return.

The interpretation is expected to have no material impact on financial position and financial performance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

47 BANK-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	31 December 2018	31 December 2017
Assets			
Cash and deposits with central bank		97,428,197	84,121,193
Deposits with banks and other financial institutions		28,653,661	34,834,153
Precious metal		–	274,310
Placements with banks and other financial institutions		2,501,648	34,327,733
Derivative financial assets		2,171,078	429,386
Financial assets held under resale agreements		2,146,696	20,339,752
Loans and advances to customers		367,354,164	271,219,989
Financial investments:			
Financial assets at fair value through profit or loss		151,690,685	–
Financial assets at fair value through other comprehensive income		59,925,100	–
Financial assets measured at amortised cost		263,118,957	–
Available-for-sale financial assets		–	103,729,104
Held-to-maturity investments		–	224,496,165
Loans and receivables		–	238,100,568
Investments in subsidiaries	21	326,157	326,157
Property and equipment		5,248,272	5,345,157
Deferred tax assets		2,136,574	1,961,293
Other assets		1,762,790	10,123,956
		<u>984,463,979</u>	<u>1,029,628,916</u>
Total assets			
Liabilities			
Borrowings from central bank		41,718,868	48,160,000
Deposits from banks and other financial institutions		81,172,529	153,732,895
Placements from banks and other financial institutions		42,821,263	51,323,948
Financial liabilities at fair value through profit or loss		14,601,560	18,553,887
Derivative financial liabilities		758,626	1,268,879
Financial assets sold under repurchase agreements		32,309,138	75,623,265
Deposits from customers		524,422,922	473,131,116
Income tax payable		65,352	217,020
Debt securities issued		186,567,225	140,920,240
Other liabilities		3,608,147	15,053,501
		<u>928,045,630</u>	<u>977,984,751</u>
Total liabilities			

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

47 BANK-LEVEL STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	31 December 2018	31 December 2017
Equity			
Share capital	33	5,796,680	5,796,680
Capital reserve	34	11,855,505	11,855,505
Surplus reserve	34	6,110,162	5,352,502
General reserve	34	12,564,922	11,027,347
Fair value reserve	34	1,122,587	(335,375)
Provision reserve	34	5,311	–
Deficit on remeasurement of net defined benefit liability	34	(13,877)	(6,076)
Retained earnings	34	18,977,059	17,953,582
Total equity		<u>56,418,349</u>	<u>51,644,165</u>
Total liabilities and equity		<u>984,463,979</u>	<u>1,029,628,916</u>

Approved and authorised for issue by the board of directors on 29 March 2019.

Zhang Qiyang

Chairman of Board of Directors

Sun Yongsheng

Vice President

Liu Zhiyan

Chief Financial Officer

Company chop

48 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

The profit appropriation of the Bank was proposed in accordance with the resolution of the Bank's board of directors meeting as disclosed in Note 35.

Except for the above, the Group has no other significant non-adjusted events subsequent to the end of the reporting period as at the date of approval to the financial statements.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of RMB, unless otherwise stated)

The information set out below does not form part of the consolidated financial statements, and is included herein for information purpose only.

1 LIQUIDITY COVERAGE RATIO AND LEVERAGE RATIO

(a) Liquidity coverage ratio

	As at 31 December 2018	Average for the year ended 31 December 2018	As at 31 December 2017	Average for the year ended 31 December 2017
Liquidity coverage ratio (RMB and foreign currency)	137.10%	133.49%	134.85%	157.38%

The above liquidity coverage ratio is calculated in accordance with the formula promulgated by the China Banking Regulatory Commission (the former "CBRC") and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the Ministry of Finance ("MOF").

Pursuant to the Administrative Measures for Liquidity Risk Management of Commercial Banks, the liquidity coverage ratio of commercial banks shall reach 100% by the end of 2018.

The Hong Kong Banking (Disclosure) Rules (the "Rules") took effect on 1 January 2007. It requires the disclosure of an average liquidity coverage ratio, which is the arithmetic mean of the liquidity coverage ratio for each calendar quarter. The Group prepares the liquidity coverage ratio on a semi-annual basis and the disclosed average liquidity coverage ratio is the arithmetic mean of two consecutive liquidity coverage ratio as at 30 June and 31 December.

(b) Leverage ratio

	31 December 2018	31 December 2017
Leverage ratio	4.81%	4.31%

Pursuant to the Leverage Ratio Management of Commercial Banks (Amended) issued by the former CBRC and was effective since 1 April 2015, a minimum leverage ratio 4% is required.

The above liquidity coverage ratio and leverage ratio is calculated in accordance with the formula promulgated by the former CBRC and based on the financial information prepared in accordance with the requirements of the Accounting Standards for Business Enterprises and other relevant regulations issued by the MOF.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

2 CURRENCY CONCENTRATIONS

	31 December 2018			
	US Dollars (RMB Equivalent)	HK Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Spot assets	5,446,871	2,734,011	977,158	9,158,040
Spot liabilities	(31,205,784)	(2,711,111)	(974,486)	(34,891,381)
Net long position	<u>(25,758,913)</u>	<u>22,900</u>	<u>2,672</u>	<u>(25,733,341)</u>

	31 December 2017			
	US Dollars (RMB Equivalent)	HK Dollars (RMB Equivalent)	Others (RMB Equivalent)	Total (RMB Equivalent)
Spot assets	19,880,272	693,154	705,456	21,278,882
Spot liabilities	(46,387,996)	(668,631)	(702,148)	(47,758,775)
Net long position	<u>(26,507,724)</u>	<u>24,523</u>	<u>3,308</u>	<u>(26,479,893)</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

3 INTERNATIONAL CLAIMS

The Group is principally engaged in business operations within Mainland China, and regards all claims on third parties outside Mainland China and claims dominated in foreign currency on third parties in 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, and investments in debt securities.

A country or geographical area 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			Total
	Official sector	Banks and other financial institutions	Non-bank private sector	
Asia Pacific	427,620	563,739	4,926,932	5,918,291
North and South America	–	1,072,166	–	1,072,166
Europe	–	13,514	–	13,514
Total	427,620	1,649,419	4,926,932	7,003,971

	As at 31 December 2017			Total
	Official sector	Banks and other financial institutions	Non-bank private sector	
Asia Pacific	755,321	17,196,026	2,691,578	20,642,925
North and South America	–	432,957	–	432,957
Europe	–	25,154	–	25,154
Total	755,321	17,654,137	2,691,578	21,101,036

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(Expressed in thousands of RMB, unless otherwise stated)

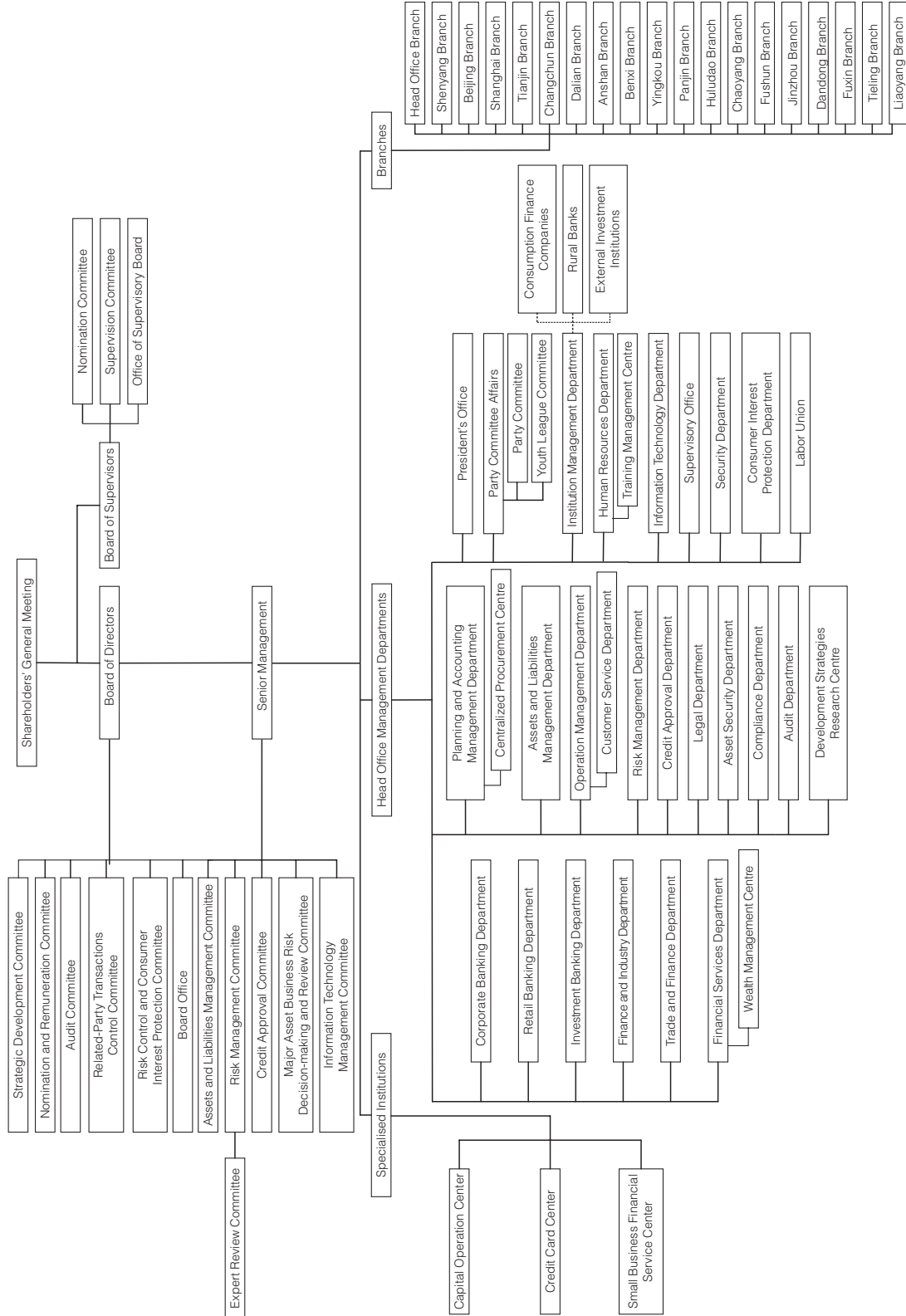
4 OVERDUE LOANS AND ADVANCES BY GEOGRAPHICAL SEGMENTS

	31 December 2018	31 December 2017
Northeast China	18,157,038	4,856,265
North China	11,072,813	380,701
Others	2,190,130	75,288
Total	31,419,981	5,312,254

5 GROSS AMOUNT OF OVERDUE LOANS AND ADVANCES FOR MORE THAN 90 DAYS

	31 December 2018	31 December 2017
Gross loans and advances which have been overdue with respect to either principal or interest for periods of		
– between 3 and 6 months (inclusive)	7,605,560	92,486
– between 6 months and 1 year (inclusive)	12,141,398	543,598
– over 1 year	1,384,087	3,432,012
Total	21,131,045	4,068,096
As a percentage of total gross loans and advances		
– between 3 and 6 months (inclusive)	2.02%	0.03%
– between 6 months and 1 year (inclusive)	3.22%	0.20%
– over 1 year	0.37%	1.23%
Total	5.61%	1.46%

ORGANIZATIONAL STRUCTURE OF SHENGJING BANK UPON OPTIMIZATION AND ADJUSTMENT



THE STATISTICAL STATEMENTS OF ALL OPERATING INSTITUTIONS OF SHENGJING BANK

As at 31 December 2018, the Bank has a total of 205 operating institutions, including one institution with legal person status, three specialised institutions, 18 branches, eight small and micro sub-branches and 175 sub-branches, details of which are set out as follows:

Geographical Region	Full name of institutions in the business license	Business Address	Telephone	Postcode	Fax
Head Office	Shengjing Bank Co., Ltd.	No. 109, Beizhan Road, Shenhe District, Shenyang City	024-22535633	110013	024-22535633
Liaoning Province	Shenyang Heping Sub-Branch of Shengjing Bank Co., Ltd.	No. 96, Taiyuan South Street, Heping District, Shenyang City	024-23528647	110001	024-23528647
	Shenyang Shengli Sub-Branch of Shengjing Bank Co., Ltd.	No. 14 and 16, Changbai 4th Street, Heping District, Shenyang City	024-23523044	110166	024-23523044
	Shenyang Nanjing Street Sub-Branch of Shengjing Bank Co., Ltd.	No. 45, Nanjing South Street, Heping District, Shenyang City	024-23523225	110001	024-23523225
	Shenyang Xinmin Sub-Branch of Shengjing Bank Co., Ltd.	No. 3, Zhongxing East Road, Xinmin City, Liaoning Province	024-27855999	110300	024-27855999
	Shenyang Hongxia Sub-Branch of Shengjing Bank Co., Ltd.	No. 38, North 5th Longitude Street, Heping District, Shenyang City	024-62250304	110003	024-62250304
	Shenyang Nanshi Sub-Branch of Shengjing Bank Co., Ltd.	No. 7, South 3rd Longitude Street, Shenhe District, Shenyang City	024-22710606	110013	024-22710606
	Shenyang Taiyuan Sub-Branch of Shengjing Bank Co., Ltd.	No. 92, Shengli South Street, Heping District, Shenyang City	024-62502763	110051	024-62502763
	Shenyang Medical University Sub-Branch of Shengjing Bank Co., Ltd.	No. 92, North 2nd Road, Heping District, Shenyang City	024-23261098	110001	024-23261098
	Shenyang Xinshijie Sub-Branch of Shengjing Bank Co., Ltd.	Gate5&6, No.7-19, South Sanhao Street, Heping District, Shenyang City	024-82562359	110057	024-82562359
	Shenyang Hetai Sub-Branch of Shengjing Bank Co., Ltd.	Gate 3, No. 107, Nanjing North Street, Heping District, Shenyang City	024-22870771	110001	024-22870771
	Shenyang Shenshui Sub-Branch of Shengjing Bank Co., Ltd.	No.496, Changbaisan Street, Heping District, Shenyang City	024-31910800	110001	024-31910800
	Shenyang Beishi Sub-Branch of Shengjing Bank Co., Ltd.	No. 218, Shifu Avenue, Heping District, Shenyang City	024-62502761	110001	024-62502761
	Shenyang Tianhe Sub-Branch of Shengjing Bank Co., Ltd.	Unit 101 & 102, No. 5, Zhongshan Road, Heping District, Shenyang City	024-22821548	110002	024-22821548
	Shenyang Sujiatun Sub-Branch of Shengjing Bank Co., Ltd.	No. 60, Fengyang Road, Sujiatun District, Shenyang City	024-89811137	110101	024-89811137
	Shenyang Changbai Sub-Branch of Shengjing Bank Co., Ltd.	A1 & 2, No. 62, Changbai West Road, Heping District, Shenyang City	024-23732950	110001	024-23732950
	Shenyang Fengyang Sub-Branch of Shengjing Bank Co., Ltd.	Gate 1 and 53, No. 107, Fengyang Road, Sujiatun, Shenyang City	024-89825773	110101	024-89825773
	Shenyang Huoju Sub-Branch of Shengjing Bank Co., Ltd.	No. 262 A, Shifu Avenue, Shenhe District, Shenyang City	024-22503048	110013	024-22503048

THE STATISTICAL STATEMENTS OF ALL OPERATING INSTITUTIONS OF SHENGJING BANK (CONTINUED)

Geographical Region	Full name of institutions in the business license	Business Address	Telephone	Postcode	Fax
	Shenyang Sanhao Sub-Branch of Shengjing Bank Co., Ltd.	No. 87 A-1, South Sanhao Street, Heping District, Shenyang City	024-23992357	110057	024-23992357
	Shenyang Jiaoyu Sub-Branch of Shengjing Bank Co., Ltd.	No. 55, 2nd Longitude Street, Shenhe District, Shenyang City	024-22840330	110068	024-22840330
	Shenyang Huashan Sub-Branch of Shengjing Bank Co., Ltd.	No. 76, Harbin Road, Heping District, Shenyang City	024-22501048	110002	024-22501048
	Shenyang West Tower Sub-Branch of Shengjing Bank Co., Ltd.	No. 42, West Tower Street, Heping District, Shenyang City	024-23469142	110001	024-23469142
	Shenyang Lingdong Sub-Branch of Shengjing Bank Co., Ltd.	Gate12&13, No.28, Tieshan Road, Huanggu District, Shenyang City	024-31513441	110032	024-31513441
	Shenyang Huaxin Sub-Branch of Shengjing Bank Co., Ltd.	No. 12, Huashan Road, Huanggu District, Shenyang City	024-86413380	110031	024-86413380
	Shenyang Xinhe Sub-Branch of Shengjing Bank Co., Ltd.	No. 98, Shashan Street, Heping District, Shenyang City	024-22791973	110001	024-22791973
	Shenyang Keji Sub-Branch of Shengjing Bank Co., Ltd.	Gate 2, No. 318, Qingnian Street, Heping District, Shenyang City	024-23997390	110001	024-23997390
	Shenyang Jiahe Sub-Branch of Shengjing Bank Co., Ltd.	Gate 7, No. 1, Fangming Street, Shenhe District, Shenyang City	024-24627163	110015	024-24627163
	Shenyang Dongquan Sub-Branch of Shengjing Bank Co., Ltd.	No. 16, Quanyuan 1st Road, Shenhe District, Shenyang City	024-24233911	110015	024-24233911
	Shenyang Nanhu Sub-Branch of Shengjing Bank Co., Ltd.	No. 21 A-1, Sanhao Street, Heping District, Shenyang City	024-23895215	110001	024-23895215
	Shenyang Dongxing Sub-Branch of Shengjing Bank Co., Ltd.	No. 429 (Gates 11-12), Da'nán Street, Shenhe District, Shenyang	024-24516360	110016	024-24516360
	Shenyang Minzhu Sub-Branch of Shengjing Bank Co., Ltd.	No. 78, Heping North Street, Heping District, Shenyang	024-23261166	110001	024-23261166
	Shenyang Zhaogong Sub-Branch of Shengjing Bank Co., Ltd.	No. 3, Block 35, No. 26-A, North 2nd West Road, Tiexi District, Shenyang City	024-23830881	110026	024-23830881
	Shenyang Tiexi Sub-Branch of Shengjing Bank Co., Ltd.	No. 31, Jianshe Middle Road, Tiexi District, Shenyang City	024-25866380	110021	024-25866380
	Shenyang Jianshe Avenue Sub-Branch of Shengjing Bank Co., Ltd.	No. 8, Jianshe Middle Road, Tiexi District, Shenyang City	024-25866380	110021	024-25866380
	Shenyang Mazhuang Sub-Branch of Shengjing Bank Co., Ltd.	No. 19, Mazhuang Street, Tiexi District, Shenyang City	024-25728349	110023	024-25728349
	Shenyang Xinghua Sub-Branch of Shengjing Bank Co., Ltd.	No. 14, Yanhua Street, Tiexi District, Shenyang City	024-25964572	110021	024-25964572
	Shenyang Baogong Sub-Branch of Shengjing Bank Co., Ltd.	No. 15, Baogong South Street, Tiexi District, Shenyang City	024-25655584	110027	024-25655584

THE STATISTICAL STATEMENTS OF ALL OPERATING INSTITUTIONS OF SHENGJING BANK (CONTINUED)

Geographical Region	Full name of institutions in the business license	Business Address	Telephone	Postcode	Fax
	Shenyang Baoxing Sub-Branch of Shengjing Bank Co., Ltd.	No. 29, Xinghua North Street, Tiexi District, Shenyang City	024-25112720	110027	024-25112720
	Shenyang Tengfei Sub-Branch of Shengjing Bank Co., Ltd.	No. 57, Tengfei 1st Street, Tiexi District, Shenyang City	024-25931567	110027	024-25931567
	Shenyang Yuhong Sub-Branch of Shengjing Bank Co., Ltd.	No. 10, Huanghai Road, Yuhong District, Shenyang City	024-25305689	110144	024-25305689
	Shenyang Zhangshi Sub-Branch of Shengjing Bank Co., Ltd.	No. 212, Shenliao Road, Shenyang Economic and Technological Development Zone	024-25280910	110023	024-25280910
	Shenyang Tiecheng Sub-Branch of Shengjing Bank Co., Ltd.	No. 36, Zhaogong South Street, Tiexi District, Shenyang City	024-25717902	110027	024-25717902
	Shenyang Shuangxi Sub-Branch of Shengjing Bank Co., Ltd.	No. 88, Zhonggong South Street, Tiexi District, Shenyang City	024-25787387	110027	024-25787387
	Shenyang Jingxing Sub-Branch of Shengjing Bank Co., Ltd.	No. 178, Xingshun Street, Tiexi District, Shenyang City	024-85400343	110027	024-85400343
	Shenyang Huaxiang Sub-Branch of Shengjing Bank Co., Ltd.	Gate 4-5, No. 18, Huaxiang Road, Tiexi District, Shenyang City	024-25890701	110027	024-25890701
	Shenyang Xingshun Sub-Branch of Shengjing Bank Co., Ltd.	(Gate 1) (Gate 2) (Gate 3) (Gate 4) (Gate 5) (Gate 6), No.23-1, North 2nd Middle Road, Tiexi District, Shenyang City	024-81054378	110027	024-81054378
	Shenyang Shenhe Sub-Branch of Shengjing Bank Co., Ltd.	No. 2, Zhongjie Street, Shenhe District, Shenyang City	024-24869730	110011	024-24869730
	Shenyang Wenyi Road Sub-Branch of Shengjing Bank Co., Ltd.	No. 2, Wu'ai Street, Shenhe District, Shenyang City	024-83962659	110013	024-83962659
	Shenyang Xiaoxi Road Sub-Branch of Shengjing Bank Co., Ltd.	Unit 1, Floor 1, Tower B, No. 59-1, Qingnian Street, Shenhe District, Shenyang City	024-22956813	110014	024-22956813
	Shenyang Shangyuan Sub-Branch of Shengjing Bank Co., Ltd.	No. 34-A, Shangyuan Road, Dadong District, Shenyang City	024-88326157	110041	024-88326157
	Shenyang North Station Sub-Branch of Shengjing Bank Co., Ltd.	No. 27, Huigong East 1st Street, Shenhe District, Shenyang City	024-88516181	110013	024-88516181
	Shenyang Nanliu Sub-Branch of Shengjing Bank Co., Ltd.	No. 16, South 8th Road, Heping District, Shenyang City	024-23508046	110001	024-23508046
	Shenyang Donghuan Sub-Branch of Shengjing Bank Co., Ltd.	Gate 4 & 5, No. 37, Shentie Road, Dadong District, Shenyang City	024-22712154	110013	024-22712154
	Shenyang Yinhe Sub-Branch of Shengjing Bank Co., Ltd.	No. 180, Xiaonan Street, Shenhe District, Shenyang City	024-24187108	110013	024-24187108
	Shenyang Binhe Sub-Branch of Shengjing Bank Co., Ltd.	No. 92, Da'n'an Street, Shenhe District, Shenyang City	024-24809998	110013	024-24809998

THE STATISTICAL STATEMENTS OF ALL OPERATING INSTITUTIONS OF SHENGJING BANK (CONTINUED)

Geographical Region	Full name of institutions in the business license	Business Address	Telephone	Postcode	Fax
	Shenyang Wu'ai Market Sub-Branch of Shengjing Bank Co., Ltd.	No. 65, Re'nao Road, Shenhe District, Shenyang City	024-24816598	110013	024-24816598
	Shenyang Changqing Sub-Branch of Shengjing Bank Co., Ltd.	Gate 6, 7, 8 & 9, No. 17-25, Changqing South Street, Hunnan District, Shenyang City	024-31263205	110013	024-31263205
	Shenyang Zhenghao Sub-Branch of Shengjing Bank Co., Ltd.	No. 68, Pangjiang Street, Dadong Street, Shenyang City	024-24352501	110041	024-24352501
	Shenyang Dongshuncheng Sub-Branch of Shengjing Bank Co., Ltd.	No. 2, Dongshuncheng Road, Shenhe District, Shenyang City	024-24867743	110014	024-24867743
	Shenyang Liaoshen Sub-Branch of Shengjing Bank Co., Ltd.	No.1, Liaoshen 2nd Street, Dadong District, Shenyang City	024-88113032	110041	024-88113032
	Shenyang Quanyuan Sub-Branch of Shengjing Bank Co., Ltd.	No. 7, Fengle 2nd Street, Shenhe District, Shenyang City	024-24829409	110167	024-24829409
	Shenyang Jilong Sub-Branch of Shengjing Bank Co., Ltd.	Gate 4, No. 68, Dadong Road, Dadong District, Shenyang City	024-24321649	110041	024-24321649
	Shenyang Jinsha Sub-Branch of Shengjing Bank Co., Ltd.	No. 187, Daxi Road, Shenhe District, Shenyang City	024-22973281	110013	024-22973281
	Shenyang Zhongxing Sub-Branch of Shengjing Bank Co., Ltd.	No. 10, Zhongxing Street, Heping District, Shenyang City	024-23218962	110001	024-23218962
	Shenyang Zhongshan Sub-Branch of Shengjing Bank Co., Ltd.	No. 206, Zhongshan Road, Shenhe District, Shenyang City	024-22852872	110013	024-22852872
	Shenyang Zhenxing Sub-Branch of Shengjing Bank Co., Ltd.	No. 181A, South 5th Road, Heping District, Shenyang City	024-23244929	110006	024-23244929
	Shenyang Hengxin Sub-Branch of Shengjing Bank Co., Ltd.	No. 51, Re'nao Road, Shenhe District, Shenyang City	024-31290372	110013	024-31290372
	Shenyang Xinggong Sub-Branch of Shengjing Bank Co., Ltd.	No. 108, Xinggong North Street, Tiexi District, Shenyang City	024-62635353	110013	024-62635353
	Shenyang Dadong Road Sub-Branch of Shengjing Bank Co., Ltd.	No. 116, Dongshuncheng Street, Shenhe District, Shenyang City	024-24845070	110041	024-24845070
	Shenyang Hepan New Town Sub-Branch of Shengjing Bank Co., Ltd.	Gate 10 & 11, No. 1-436, Hengda Road, Hunnan New District, Shenyang City	024-24564183	110167	024-24564183
	Shenyang Hemu Road Sub-Branch of Shengjing Bank Co., Ltd.	No. 15, Jinqiao Road, Dadong District, Shenyang City	024-62437383	110041	024-62437383
	Shenyang Dongbei Avenue Sub-Branch of Shengjing Bank Co., Ltd.	Gate 2, No. 301-19, Dongbei Avenue, Dadong District, Shenyang City	024-88212840	110041	024-88212840
	Shenyang Shenbei New District Sub-Branch of Shengjing Bank Co., Ltd.	No. 32, Yinhe Street, Shenbei New District, Shenyang City	024-89603292	110129	024-89603292
	Shenyang Bajiazi Sub-Branch of Shengjing Bank Co., Ltd.	No. 22, Dongling West Road, Dadong District, Shenyang City	024-88441405	110041	024-88441405

THE STATISTICAL STATEMENTS OF ALL OPERATING INSTITUTIONS OF SHENGJING BANK (CONTINUED)

Geographical Region	Full name of institutions in the business license	Business Address	Telephone	Postcode	Fax
	Shenyang Dongling Sub-Branch of Shengjing Bank Co., Ltd.	No. 105A, Wanliutang Road, Shenhe District, Shenyang City	024-24200020	110167	024-24200020
	Shenyang Fengle Sub-Branch of Shengjing Bank Co., Ltd.	Gate 4, No. 72, Wenhua East Road, Shenhe District, Shenyang City	024-24222193	110167	024-24222193
	Shenyang Wanquan Sub-Branch of Shengjing Bank Co., Ltd.	No. 35, Changqing Street, Shenhe District, Shenyang City	024-24233061	110015	024-24233061
	Shenyang 204 Sub-Branch of Shengjing Bank Co., Ltd.	No. 14, Liming 5th Street, Dadong District, Shenyang City	024-88417845	110043	024-88417845
	Shenyang Yaming Sub-Branch of Shengjing Bank Co., Ltd.	No. 100, Kunshan Middle Road, Huanggu District, Shenyang City	024-86860739	110031	024-86860739
	Shenyang Tawan Sub-Branch of Shengjing Bank Co., Ltd.	Gate 1-2, No. 142, Kunshan West Road, Huanggu District, Shenyang City	024-86722014	110031	024-86722014
	Shenyang Ningshan Sub-Branch of Shengjing Bank Co., Ltd.	No. 64, Ningshang Middle Road, Huanggu District, Shenyang City	024-86240034	110031	024-86240034
	Shenyang Yalu River Sub-Branch of Shengjing Bank Co., Ltd.	Gate 11, No. 63, Yalu River Street, Huanggu District, Shenyang City	024-86620510	110032	024-86620510
	Shenyang Beihuan Sub-Branch of Shengjing Bank Co., Ltd.	Gate 1, No. 78, North Changjiang Street, Yuhong District, Shenyang City	024-86166201	110031	024-86166201
	Shenyang Changjiang Sub-Branch of Shengjing Bank Co., Ltd.	No. 59, Changjiang Street, Huanggu District, Shenyang City	024-86297739	110031	024-86297739
	Shenyang Taishan Sub-Branch of Shengjing Bank Co., Ltd.	Gate 5,6&7, No. 7-4, Yalu River East Street, Huanggu District, Shenyang City	024-86629596	110144	024-86629596
	Shenyang Dabeiguan Sub-Branch of Shengjing Bank Co., Ltd.	No. 42, Dabeiguan Street, Dadong District, Shenyang City	024-88565286	110041	024-88565286
	Shenyang Xianggong Sub-Branch of Shengjing Bank Co., Ltd.	No. 215, Huashan Road, Huanggu District, Shenyang City	024-86749732	110035	024-86749732
	Shenyang Wuyi Sub-Branch of Shengjing Bank Co., Ltd.	No. 58, Liaohe Street, Huanggu District, Shenyang City	024-86840414	110031	024-86840414
	Shenyang Nenjiang Sub-Branch of Shengjing Bank Co., Ltd.	No.100,Nenjiang Street, Huanggu District, Shenyang City	024-86250963	110031	024-86250963
	Shenyang Songling Sub-Branch of Shengjing Bank Co., Ltd.	No. 88, Huanghe North Street, Yuhong District, Shenyang City	024-86520786	110144	024-86520786
	Shenyang Nuijiang Sub-Branch of Shengjing Bank Co., Ltd.	Gate 1-1, 1-2, 1-3, 1-4, No. 36-7, Beigu Mountain Road, Yuhong District, Shenyang City	024-86515855	110031	024-86515855
	Shenyang Faku Sub-Branch of Shengjing Bank Co., Ltd.	Shops 105, 106, 107, 108 & 109, Building 6, No. 41, Bianmen Street, Faku Town, Faku County, Shenyang City	024-31109066	110401	024-31109066

THE STATISTICAL STATEMENTS OF ALL OPERATING INSTITUTIONS OF SHENGJING BANK (CONTINUED)

Geographical Region	Full name of institutions in the business license	Business Address	Telephone	Postcode	Fax
	Shenyang Liaozhong Sub-Branch of Shengjing Bank Co., Ltd.	No. 106, Zhengfu Road, Liaozhong Town, Liaozhong District, Shenyang City	024-87880580	110200	024-87880580
	Shenyang Kangping Sub-Branch of Shengjing Bank Co., Ltd.	No.300 Central Street, Kangping Town, Kangping County, Shenyang City	024-87335671	110500	024-87335671
	Shenyang Yunfeng Sub-Branch of Shengjing Bank Co., Ltd.	No. 98, Xishuncheng Street, Shenhe District, Shenyang City	024-22535655	110013	024-22535655
	Shenyang Free Trade Zone Sub-Branch of Shengjing Bank Co., Ltd.	Room 128, Floor 1, Block D, No. 109-4, Quanyun North Road, Hunnan District, Shenyang City	024-24200020	110167	024-24200020
	Shenyang Branch of Shengjing Bank Co., Ltd.	No. 2A, Wuai Street, Shenhe District, Shenyang City	024-83256634	110001	024-83256634
	Shenyang Economic and Technological Development Zone Sub-Branch of Shengjing Bank Co., Ltd.	No. 21-A-5, Central Street, Shenyang Economic and Technological Development Zone	024-62836296	110142	024-62836296
	Shenyang Dongmao Road Sub-Branch of Shengjing Bank Co., Ltd.	Gate 2 & 3, No. 18A-42, Dongling Road, Shenhe District, Shenyang City	024-88421161	110136	024-88421161
	Shenyang Daoyi Sub-Branch of Shengjing Bank Co., Ltd.	Gate 3 & 4, No. 55-5, Daoyi North Street, Shenbei New District, Shenyang City	024-89798932	110136	024-89798932
	Shenyang Huanghe Sub-Branch of Shengjing Bank Co., Ltd.	Gate 1, No. 111, Huanghe South Street, Huanggu District, Shenyang City, Liaoning Province	024-82555819	110031	024-82555819
	Shenyang Shenyang Road Sub-Branch of Shengjing Bank Co., Ltd.	Gate 21, No. 15-5, Shenyang Road, Hunnan New District, Shenyang City	024-62346152	110180	024-62346152
	Shenyang Huixin Small and Micro Sub-Branch of Shengjing Bank Co., Ltd.	No. 10-92, Puhe North Road, Shenbei New District, Shenyang City, Liaoning Province	024-83256855	110127	024-83256855
	Dalian Branch of Shengjing Bank Co., Ltd.	No. 160, Jiefang Road, Zhongshan District, Dalian City, Liaoning Province	0411-82566666	116001	0411-82311081
	Dalian Development Zone Sub-Branch of Shengjing Bank Co., Ltd.	No. 37-1, Liaohe West Road, Dalian Economic and Technological Development Zone, Liaoning Province	0411-87571166	116600	0411-87188961
	Dalian Wafangdian Sub-Branch of Shengjing Bank Co., Ltd.	No. 559-7, 8 & 9, Zhufeng Street, Wenlan Street Office, Wafangdian City, Liaoning Province	0411-85552255	116300	0411-85552329
	Dalian Wusi Sub-Branch of Shengjing Bank Co., Ltd.	No. 10, Wusi Square, Shahekou District, Dalian City, Liaoning Province	0411-84652233	116021	0411-84650976
	Dalian Xinghai Sub-Branch of Shengjing Bank Co., Ltd.	No. 582, Zhongshan Road, Shahekou District, Dalian City, Liaoning Province	0411-88144433	116021	0411-88134386

THE STATISTICAL STATEMENTS OF ALL OPERATING INSTITUTIONS OF SHENGJING BANK (CONTINUED)

Geographical Region	Full name of institutions in the business license	Business Address	Telephone	Postcode	Fax
	Yingkou Branch of Shengjing Bank Co., Ltd.	No. 17, Riyue Avenue, Yingkou Economic and Technological Development Zone, Liaoning Province	0417-6818960	115007	0417-6818962
	Yingkou Dashiqiao Sub-Branch of Shengjing Bank Co., Ltd.	No. 28, Hada Middle Road, Dashiqiao City	0417-5826677	115100	0417-4887702
	Yingkou Shifu Sub-Branch of Shengjing Bank Co., Ltd.	No. 1-A-A-1, Huibin Road, Zhanqian District, Yingkou City	0417-4887700	115000	0417-5826677
	Yingkou Huimin Sub-Branch of Shengjing Bank Co., Ltd.	No. 21, Riyue Avenue, Yingkou Economic and Technological Development Zone, Liaoning Province	0417-6166642	115007	0417-6166642
	Yingkou Xuefu Sub-Branch of Shengjing Bank Co., Ltd.	No. 9-A4, North Xuefu Road, Zhanqian District, Yingkou City	0417-2922345	115000	0417-2922345
	Yingkou Gaizhou Sub-Branch of Shengjing Bank Co., Ltd.	Unit 2, 101.201, 102.202, 103.203, Building 10, Longsheng Huayuan, Xinxing Community, Xicheng Street Office, Gaizhou City	0417-7331666	115200	0417-7397003
	Yingkou Kunlun Sub-Branch of Shengjing Bank Co., Ltd.	No. 8-2, South Section, Kunlun Street, Bayuquan District, Yingkou City, Liaoning Province	0417-6166600	115007	0417-6166629
	Huludao Branch of Shengjing Bank Co., Ltd.	Building L & Building B, No. 145, Longwan Street, Longgang District, Huludao City, Liaoning Province	0429-3023018	125000	0429-3023015
	Huludao Lianshan Sub-Branch of Shengjing Bank Co., Ltd.	Building A, No. 5, Lianshan Street, Lianshan District, Huludao City, Liaoning Province	0429-3077666	125000	0429-3023067
	Huludao Longgang Sub-Branch of Shengjing Bank Co., Ltd.	No. 28, Longwan Street, Longgang District, Huludao City	0429-3122000	125000	0429-3023055
	Huludao Xingcheng Sub-Branch of Shengjing Bank Co., Ltd.	Bihai Yaju Community, Diaoyutai Street Office, Xingcheng City	0429-5677766	125100	0429-567773
	Huludao Suizhong Sub-Branch of Shengjing Bank Co., Ltd.	No. 11, Section 2, Central Road, Suizhong County, Huludao City, Liaoning Province	0429-3258001	125200	0429-3258009
	Huludao East Xingcheng Small and Micro Sub-Branch of Shengjing Bank Co., Ltd.	No. 28, Guangchang West Road, Xingcheng County-level City, Huludao City, Liaoning Province	0429-5813355	125100	0429-5813355
	Huludao Dongcheng Sub-Branch of Shengjing Bank Co., Ltd.	Building A, B, C, No. 3-5, Fumin Street, Lianshan District, Huludao City, Liaoning Province	0429-3220707	125000	0429-3220708

THE STATISTICAL STATEMENTS OF ALL OPERATING INSTITUTIONS OF SHENGJING BANK (CONTINUED)

Geographical Region	Full name of institutions in the business license	Business Address	Telephone	Postcode	Fax
	Huludao Jianchang Sub-Branch of Shengjing Bank Co., Ltd.	Shop 3, 4, 5 & 6 Eastward, South of Tianxing commercial & residential community, East Guangming Street (originally people' armed forces), Jianchang County, Huludao City, Liaoning Province	0429-3305858	125004	0429-3305858
	Anshan Sub-Branch of Shengjing Bank Co., Ltd.	No. 5-A, Hunan Street, Tiedong District, Anshan City, Liaoning Province	0412-5931002	114000	0412-5939998
	Anshan Tiedong Sub-Branch of Shengjing Bank Co., Ltd.	No. 24, Hunan Street, Tiedong District, Anshan City	0412-5841266	114000	0412-5841266
	Anshan Tiexi Sub-Branch of Shengjing Bank Co., Ltd.	No. 178-S1, S2, S3 & S4, Jiudao Street, Tiexi District, Anshan City	0412-8592299	114000	0412-8592299
	Anshan Haicheng Sub-Branch of Shengjing Bank Co., Ltd.	No. 4, Building 6-1, Baihui Xiangshan Estate, Dongguan Community, Haizhou Administrative Zone, Haicheng County-level City, Anshan City, Liaoning Province	0412-3355977	114200	0412-3355977
	Anshan Xinxing Sub-Branch of Shengjing Bank Co., Ltd.	No. 9-7, Guangming Street, Lishan District, Anshan City, Liaoning Province	0412-5916280	114000	0412-5916280
	Anshan Shengli Sub-Branch of Shengjing Bank Co., Ltd.	No. 9-11, 9-12, Wuyi Road, Tiedong District, Anshan City, Liaoning Province	0412-5939993	114000	0412-5939993
	Benxi Sub-Branch of Shengjing Bank Co., Ltd.	No. 4, Dongming Road, Pingshan District, Benxi City (Central Street, Pingshan District)	024-43106888	117000	024-43106881
	Benxi Mingshan Sub-Branch of Shengjing Bank Co., Ltd.	No. 102, Jiefang North Road, Xinfeng Street, Mingshan District, Benxi City	024-45580666	117000	024-45580600
	Benxi Shengli Road Sub-Branch of Shengjing Bank Co., Ltd.	Building 57, Shengli Road, Mingshan District, Benxi City	024-42966688	117000	024-42966133

THE STATISTICAL STATEMENTS OF ALL OPERATING INSTITUTIONS OF SHENGJING BANK (CONTINUED)

Geographical Region	Full name of institutions in the business license	Business Address	Telephone	Postcode	Fax
	Benxi Pingshan Sub-Branch of Shengjing Bank Co., Ltd.	No. 8, Building 31-6, Pingshan Road, Pingshan District, Benxi City, Liaoning Province	024-42666999	117000	024-42966199
	Benxi County Sub-Branch of Shengjing Bank Co., Ltd.	No. 331, Changjiang Road, Xiaoshi Town, Benxi Manchu Autonomous County, Liaoning Province	024-43336111	117100	024-43335806
	Panjin Branch of Shengjing Bank Co., Ltd.	No. 136, Xinglongtai Street, Xinglongtai District, Panjin City	0427-3290900	124000	0427-3290908
	Panjin Development Zone Sub-Branch of Shengjing Bank Co., Ltd.	No. 236, Taishan Road, Xinglongtai District, Panjin City	0427-3267099	124000	0427-3290908
	Panjin Liaohe Oil Field Sub-Branch of Shengjing Bank Co., Ltd.	Business Outlet No. 1-3 & 1-4, Xinyihe Community, Xinglongtai Street, Xinglongtai District, Panjin City	0427-3291099	124000	0427-3290908
	Panjin Panshan Sub-Branch of Shengjing Bank Co., Ltd.	Room 102, Floor 1, Venture Building, No. 8, Fuqian Street, Panshan County, Panjin City, Liaoning Province	0427-3712199	124000	0427-3290908
	Panjin Shuangtaizi Sub-Branch of Shengjing Bank Co., Ltd.	No. 156, Shengli Street, Shuangtaizi District, Panjin City, Liaoning Province	0427-3710880	124000	0427-3290908
	Panjin Leyuan Small and Micro Sub-Branch of Shengjing Bank Co., Ltd.	No. 41-1, Leyuan Road, Xinglongtai District, Panjin City, Liaoning Province	0427-6590799	124000	0427-3290908
	Panjin Jinxiang Small and Micro Sub-Branch of Shengjing Bank Co., Ltd.	No. 182-10-6, Xinglongtai Street, Xinlongtai District, Panjin City, Liaoning Province	0427-7860290	124000	0427-3290908
	Chaoyang Branch of Shengjing Bank Co., Ltd.	No. 3-5, 3-6 & 3-7, Section 2, Zhujiang Road, Shuangta District, Chaoyang City	0421-3999916	122000	0421-2705555
	Chaoyang Shuangta Sub-Branch of Shengjing Bank Co., Ltd.	No. 70, Section 4, Youyi Street, Shuangta District, Chaoyang City	0421-3606777	122000	0421-3999931
	Chaoyang Jianping Sub-Branch of Shengjing Bank Co., Ltd.	No. 59, Renmin Road, Jianping County, Chaoyang City, Liaoning Province	0421-7868787	122000	0421-7868222
	Chaoyang Longcheng Sub-Branch of Shengjing Bank Co., Ltd.	No. 69-1 & 69-2, Section 5, Wenhua Road, Longcheng District, Chaoyang City, Liaoning Province	0421-3895566	122000	0421-3999939
	Fushun Branch of Shengjing Bank Co., Ltd.	Room 2, 3 & 4, No. 57-7, Linjiang East Road, Shuncheng District, Fushun City	024-53903666	113006	024-53908003
	Fushun Xinfu Sub-Branch of Shengjing Bank Co., Ltd.	Shop 2, Building 2, Wugong Street, Xinfu District, Fushun City, Liaoning Province	024-53965666	113008	024-53965010
	Fushun Wanghua Sub-Branch of Shengjing Bank Co., Ltd.	Shop 1 & 2, Building 23, West Section, Leifeng Road, Wanghua District, Fushun City, Liaoning Province	024-53978966	113001	024-53978977

THE STATISTICAL STATEMENTS OF ALL OPERATING INSTITUTIONS OF SHENGJING BANK (CONTINUED)

Geographical Region	Full name of institutions in the business license	Business Address	Telephone	Postcode	Fax
	Fushun Dongzhou Sub-Branch of Shengjing Bank Co., Ltd.	First Floor of Room 5 and First & Second Floor of Room 6, Non-residential Two-Floor Unit, No. 3, Dongzhou North Street, Dongzhou District, Fushun City, Liaoning Province	024-53784333	113001	024-53986333
	Fushun Yong'antai Small and Micro Sub-Branch of Shengjing Bank Co., Ltd.	No. 102, Unit 2, Building 5, Beitai Fifth Street, Xinfu District, Fushun City	024-53986333	113001	024-53986333
	Jinzhou Branch of Shengjing Bank Co., Ltd.	No. 43-1, Area B of Lingyunli Manhattan, Taihe District, Jinzhou City	0416-2110900	121000	0416-2110911
	Jinzhou Yan'an Road Sub-Branch of Shengjing Bank Co., Ltd.	No. 1-1, Jindi Jiayuan Community, Section 3, Yan'an Road, Guta District, Jinzhou City, Liaoning Province	0416-2110951	121000	0416-2110951
	Jinzhou Jiefang Road Sub-Branch of Shengjing Bank Co., Ltd.	No. 8, 9, Section 171, Hangzhou Street, Linghe District, Jinzhou City, Liaoning Province	0416-2110990	121000	0416-2110990
	Jinzhou Central Avenue Sub-Branch of Shengjing Bank Co., Ltd.	No. 26-52 & 26-53, Section 3, Jiefang Road, Guta District, Jinzhou City, Liaoning Province	0416-2110998	12100	0416-2110998
	Fuxin Branch of Shengjing Bank Co., Ltd.	Gate 12, 14, 16, 18, 20, 22, No. 86, Zhonghua Road, Haizhou District, Fuxin City	0418-5699999	123000	0418-5969933
	Fuxin Fumeng County Sub-Branch of Shengjing Bank Co., Ltd.	No. 26-1-1-4, Building 26, Wenhua Road, Qiangmin Community, Fumeng County, Fuxin City, Liaoning Province	0418-3590999	123000	0418-3590116
	Dandong Branch of Shengjing Bank Co., Ltd.	No. 70, Qingnian Street, Zhenxing District, Dandong City	0415-2946666	118000	0415-2236111
	Dandong Donggang Sub-Branch of Shengjing Bank Co., Ltd.	No. 30, Jinxiu Jiayuan Community, Dadong Administrative Zone, Donggang County-level City, Dandong City, Liaoning Province	0415-2596666	118300	0415-2596666
	Liaoyang Branch of Shengjing Bank Co., Ltd.	No. 155, Wensheng Road, Baita District, Liaoyang City, Liaoning Province	0419-3630555	111000	0419-3679305
	Liaoyang Hongwei Sub-Branch of Shengjing Bank Co., Ltd.	No. 28, Jiankang Road, Hongwei District, Liaoyang City, Liaoning Province	0419-3679345	111000	0419-3679345
	Tieling Branch of Shengjing Bank Co., Ltd.	No. 18 1-1, Yinzhou Road, Yinzhou District, Tieling City, Liaoning Province	024-72276666	112000	024-72273098
	Tieling Yinzhou Sub-Branch of Shengjing Bank Co., Ltd.	Shop 1, Zone C East, Building 22, No. 11, Huiyuan Community, Chaihe Street, Yinzhou District, Tieling City, Liaoning Province	024-76696666	112000	024-72296666
Beijing Municipality	Beijing Branch of Shengjing Bank Co., Ltd.	Tower D, Oriental Media Centre, No. 4, Guanghua Road, Chaoyang District, Beijing Municipality	010-85570028	100026	010-85570017

THE STATISTICAL STATEMENTS OF ALL OPERATING INSTITUTIONS OF SHENGJING BANK (CONTINUED)

Geographical Region	Full name of institutions in the business license	Business Address	Telephone	Postcode	Fax
	Beijing Zhongguancun Sub-Branch of Shengjing Bank Co., Ltd.	Unit 108 & 109, Floor 1, No. 8, Haidian North 2nd Street, Haidian District, Beijing Municipality	010-59718592	100080	010-59718591
	Beijing Guanyuan Sub-Branch of Shengjing Bank Co., Ltd.	Shop 5, Building 1, Yard 9, Chegongzhuang Street, Xicheng District, Beijing Municipality (Desheng Technology Park)	010-85251177	100044	010-85251177-8877
	Beijing Wukesong Sub-Branch of Shengjing Bank Co., Ltd.	Building 3, No. 69, Fuxing Road, Haidian District, Beijing Municipality	010-88199289	100038	010-88199292
	Beijing Shunyi Sub-Branch of Shengjing Bank Co., Ltd.	No. F1-57, 58 & F2-40b, Building 1, Yard 8, Xinchun South Street, Renhe Town, Shunyi District, Beijing Municipality (Hualian Commercial Building)	010-61426812	101300	010-61426808
	Beijing Daxing Sub-Branch of Shengjing Bank Co., Ltd.	No. 26, Section 3, Xingye Street, Daxing District, Beijing Municipality	010-65820066	102600	010-69267611
	Beijing Shijingshan Sub-Branch of Shengjing Bank Co., Ltd.	Room 107, Floor 1, Building 2, Yunquan Xili Zone 1, Shijingshan District, Beijing Municipality	010-68636855	100040	010-68636875
	Beijing Wangjing Sub-Branch of Shengjing Bank Co., Ltd.	No. 216-220, Floor 2, Building 8, Zone 4 of Wangjing Dongyuan, Chaoyang District, Beijing Municipality	010-64391577	100040	010-64391577
Shanghai Municipality	Shanghai Branch of Shengjing Bank Co., Ltd.	Room 102, 103, 202, No. 1452, Hongqiao Road, Changning District, Shanghai Municipality	021-63606006	200336	021-32097719
	Shanghai Putuo Sub-Branch of Shengjing Bank Co., Ltd.	Room A8005-A8006, Floor 1, No. 1108, Zhenbei Road, Putuo District, Shanghai Municipality	021-60290523	200333	021-60290526
	Shanghai Pudong Sub-Branch of Shengjing Bank Co., Ltd.	No. 968, Pudong Avenue, China (Shanghai) Pilot Free Trade Zone	021-60191751	200120	021-60191755
	Shanghai Songjiang Sub-Branch of Shengjing Bank Co., Ltd.	Floor 1 & 2, No. 2, 4, 6, 8 & 10, Changxin Garden, Lane 1855, Sixian Road, Songjiang District, Shanghai Municipality	021-67827629	201600	021-67827393
	Shanghai Changning Anlong Sub-Branch of Shengjing Bank Co., Ltd.	No. 759, Anlong Road, Changning District, Shanghai Municipality	021-60791288	200336	021-60791278
	Shanghai Xuhui Sub-Branch of Shengjing Bank Co., Ltd.	Shop 107/108, Floor 1 & Shop 210/209, Floor 2, No. 75, Tianlin East Road, Xuhui District, Shanghai Municipality	021-61270581	200235	021-61270589
	Shanghai Huangpu Sub-Branch of Shengjing Bank Co., Ltd.	Unit 02, Floor 1, No. 689, Guangdong Road, Huangpu District, Shanghai Municipality	021-63606036	200001	021-63606217
	Shanghai Yangpu Sub-Branch of Shengjing Bank Co., Ltd.	No. 166, 168, 170, Guoquan East Road, Yangpu District, Shanghai Municipality	021-55960391	200082	021-55960617

THE STATISTICAL STATEMENTS OF ALL OPERATING INSTITUTIONS OF SHENGJING BANK (CONTINUED)

Geographical Region	Full name of institutions in the business license	Business Address	Telephone	Postcode	Fax
Tianjin City	Shanghai Jing'an Sub-Branch of Shengjing Bank Co., Ltd.	Room 102, Building No. 1, No.555, Nanjing West Road, Jing'an District, Shanghai Municipality	021-52897959	200041	021-52897932
	Tianjin Branch of Shengjing Bank Co., Ltd.	Shopping Mall of Building 1, Wanshun Hot Spring Garden, Huangpu South Road, Hexi District, Tianjin City	022-28379999	300201	022-28379999
	Tianjin Huayuan Sub-Branch of Shengjing Bank Co., Ltd.	No. 150-04, 206, Yingshui Avenue, Huayuan Industrial Zone	022-58815628	300384	022-58815628
	Tianjin Binhai Sub-Branch of Shengjing Bank Co., Ltd.	No. 21-18, 2nd Street, Tianjin Development Zone	022-59835260	300457	022-59835160
	Tianjin Beichen Sub-Branch of Shengjing Bank Co., Ltd.	Unit 101, Building 4, Beichen Tower, Beichen District	022-58687610	300400	022-58687611
	Tianjin Xiqing Sub-Branch of Shengjing Bank Co., Ltd.	No. 12-22, Jinfeng Road, Xiqing District	022-58335695	300380	022-58335697
	Tianjin Hedong Sub-Branch of Shengjing Bank Co., Ltd.	No. 1 & 2, Floor 1, No. 70, Huachang Road, Hedong District	022-24410278	300011	022-24410278
	Tianjin Hebei Sub-Branch of Shengjing Bank Co., Ltd.	No. 20, Wangchuanchang 5th Road, Hebei District, Tianjin City	022-58885920	300150	022-58885918
	Tianjin Heping Sub-Branch of Shengjing Bank Co., Ltd.	No. 5, Xikang Road, Building 1 & 2, Hekang Mingdi, Heping District, Tianjin City	022-59956312	300051	022-59956312
	Tianjin Dongli Sub-Branch of Shengjing Bank Co., Ltd.	Room 3-110, Guangfu Business Center, Dongli District, Tianjin City	022-84965926	300301	022-84965926
Changchun City	Tianjin Nankai Sub-Branch of Shengjing Bank Co., Ltd.	Floor 1, Nanfang Building, Northwest of the intersection of Anshan West Road and West Lake Village Street, Nankai District, Tianjin City	022-83698133	300302	022-83698135
	Tianjin Jingtian Apartment Small and Micro Sub-Branch of Shengjing Bank Co., Ltd.	Zone 5-5-101A, Jingtian Apartment, Jiarongli Street, Beichen District, Tianjin City	022-83904179	300134	022-86690930
	Tianjin Xilaida Small and Micro Sub-Branch of Shengjing Bank Co., Ltd.	No. 22-2, Zilu North Road, Wang Village, Dasi Town, Xiqing District, Tianjin City	022-83698047	300385	022-83904179
	Changchun Branch of Shengjing Bank Co., Ltd.	No. 61, Gongnong Avenue, Chaoyang District, Changchun City, Jilin Province	0431-81958888	130012	0431-81958078
	Changchun Dongsheng Sub-Branch of Shengjing Bank Co., Ltd.	No. 1999, Jilin Avenue, Erdao District, Changchun City	0431-81970381	130031	0431-81970386
	Changchun Xi'an Avenue Sub-Branch of Shengjing Bank Co., Ltd.	No. 8, Xi'an Avenue, Chaoyang District, Changchun City	0431-89828555	130011	0431-89365466
	Changchun Xiangyun Sub-Branch of Shengjing Bank Co., Ltd.	No. 1438, Xiangyun Street, Lvyan District, Changchun City	0431-89297707	130000	0431-89297701
	Changchun Nanhu Avenue Sub-Branch of Shengjing Bank Co., Ltd.	No. 1999, Nanhu Avenue, Nanguan District, Changchun City	0431-81928705	130000	0431-81928701
	Changchun Quan Lou Small and Micro Sub-Branch of Shengjing Bank Co., Ltd.	No. 18, Chongqing Hutong, Nanguan District, Changchun City, Jilin Province	0431-89828555	130011	0431-89365466

THE STATISTICAL STATEMENTS OF ALL OPERATING INSTITUTIONS OF SHENGJING BANK (CONTINUED)

Geographical Region	Full name of institutions in the business license	Business Address	Telephone	Postcode	Fax
	Changchun Ziyou Avenue Sub-Branch of Shengjing Bank Co., Ltd.	Block C, Yatai Haoyuan Community, No. 1008, Ziyou Avenue, Chaoyang District, Changchun City, Jilin Province	0431-82008662	130012	0431-82008660
	Changchun Jingyang Sub-Branch of Shengjing Bank Co., Ltd.	No. 3310, Jingyang Avenue, Changchun Automobile Economic and Technological Development Zone, Jilin Province	0431-82008704	130062	0431-82008702
	Changchun Jilin City Sub-Branch of Shengjing Bank Co., Ltd.	Floor 2-4, Postal Tower, No. 2, Songjiang East Road, Changyi District, Jilin City	0432-62673888	132000	0432-63001083
	Changchun Yongchun Sub-Branch of Shengjing Bank Co., Ltd.	No. 88, 4th Road, Nanguan District, Changchun City, Jilin Province	0431-82008676	130022	0431-82008676
	Changchun CETDZ Sub-Branch of Shengjing Bank Co., Ltd.	No.1138&1156, Weixing Road, Changchun Economic and Technological Development Zone, Jilin Province	0431-82008700	130031	0431-82008774
Specialised institutions	Credit Card Center of Shengjing Bank Co., Ltd.	No. 109, Beizhan Road, Shenhe District, Shenyang City	024-22535723	110013	024-22535723
	Capital Operation Center of Shengjing Bank Co., Ltd.	No. 15, Baogong South Street, Tiexi District, Shenyang City	024-23595555-2462	110023	024-23595555-2462
	Small Business Financial Service Center of Shengjing Bank Co., Ltd.	No. 60, Fengyang Road, Sujiatun District, Shenyang City	024-23595555-8933	110101	024-23595555-8933

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

“Articles of Association”	the articles of association of the Bank, as amended from time to time
“Bank”, “Shengjing Bank”, or “We”	Shengjing Bank Co., Ltd. (盛京银行股份有限公司), a joint stock limited company incorporated in the PRC on 10 September 1997 in accordance with PRC laws, and, if the context requires, includes its predecessors, subsidiaries, branches and sub-branches
“Board” or “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
“CBIRC Liaoning Bureau”	China Banking and Insurance Regulatory Commission Liaoning Bureau
“Director(s)”	the director(s) of the Bank
“Domestic Shares”	ordinary shares issued by the Bank, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in full in Renminbi
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“H Shares”	overseas-listed shares in the share capital of our Bank, with a nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and listed on the Main Board of the Hong Kong Stock Exchange
HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITION (CONTINUED)

“Latest Practicable Date”	4 April 2019, being the latest practicable date prior to the printing of this report for the purpose of ascertaining certain information contained in this report
“Listing Date”	29 December 2014, the date on which dealings in the H Shares first commenced on the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Macau”	the Macau Special Administrative Region of the PRC
“PBOC” or “Central Bank”	the People’s Bank of China
“PRC”	the People’s Republic of China, and for the purpose of this report only, excluding Hong Kong, Macau and Taiwan
“Reporting Period”	the year ended 31 December 2018
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Shareholder(s)”	the shareholder(s) of the Bank
“Shares”	the Domestic Shares and the H Shares
“Shenyang Hengxin”	Shenyang Hengxin State-owned Assets Management Group Co., Ltd. (瀋陽恒信國有資產經營集團有限公司, formerly known as 瀋陽恒信國有資產經營有限公司), a company incorporated in the PRC on 10 April 2002, which held approximately 8.28% of the total issued share capital of the Bank as at the Latest Practicable Date
“State Council”	the State Council of the PRC
“Supervisor(s)”	the supervisor(s) of the Bank



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